PepsiCo, Inc.
1991

Some creatures show a strong inclination to multiply...

...and we're among them.

At PepsiCo, we're committed to rapid growth. We've doubled the size of our business about every five years since we were founded in 1965. Today, our sales are nearly $20 billion and we still see unlimited opportunities.

But we don't grow just for the sake of getting bigger. We believe a growing company is like a spring day—full of hope, vitality and a sense of opportunity.

To find out how we intend to keep growing, read on...

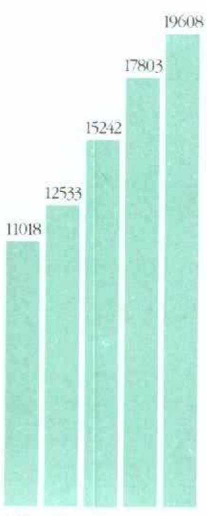
Contents

Financial Highlights

(tabular dollars in millions except per share amounts)	Fifty-two Weeks Ended **December 28, 1991**	Fifty-two Weeks Ended December 29, 1990	**Percent Change**
Net sales	**$19,608**	17,803	**+10**
Soft drinks	**$ 6,915**	6,523	**+ 6**
Snack foods	**$ 5,566**	5,054	**+10**
Restaurants	**$ 7,127**	6,226	**+14**
Segment operating profits	**$ 2,227**	2,224	**–**
Soft drinks	**$ 863**	768	**+12**
Snack foods	**$ 788**	934	**–16**
Restaurants	**$ 576**	522	**+10**
Income from continuing operations	**$ 1,080**	1,091	**– 1**
Per Share	**$ 1.35**	1.37	**– 1**
Net income	**$ 1,080**	1,077	**–**
Per Share	**$ 1.35**	1.35	**–**
Cash dividends declared	**$ 363**	302	**+20**
Per Share	**$ 0.460**	0.383	**+20**
Net cash provided by continuing operations	**$ 2,430**	2,110	**+15**
Purchases of property, plant and equipment for cash	**$ 1,458**	1,180	**+24**
Acquisitions and investments in affiliates for cash	**$ 641**	631	
Return on average shareholders' equity	**% 20.7**	24.8	

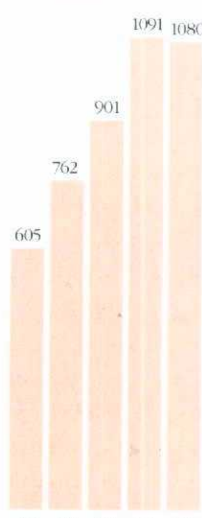
Income from continuing operations in 1991 and 1990 included several unusual items. 1991 included unusual charges totaling $170.0 million ($119.8 after-tax or $0.15 per share), $127.0 million of which represented restructuring charges in the snack foods segment. 1990 included a net unusual credit of $35.2 million ($4.2 charge after-tax or $0.01 per share). See Note to Consolidated Financial Statements on page 34 for detail of unusual items.
Return on average shareholders' equity was calculated using income from continuing operations.

Net Sales
($ In Millions)



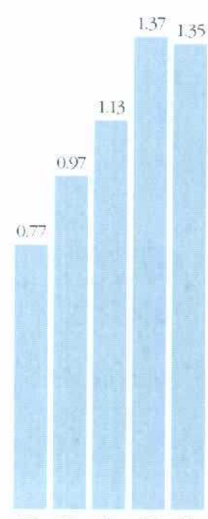
Net sales have grown at a compounded annual rate of 16.8% over the past five years.

Income From Continuing Operations
($ In Millions)



Income from continuing operations has grown at a compounded annual rate of 18.4% over the past five years.

Income Per Share From Continuing Operations
(In Dollars)



Income per share from continuing operations has grown at a compounded annual rate of 18.0% over the past five years.

Year-End Market Price Of Stock
(In Dollars)

The market price of PepsiCo Capital Stock has grown at a compounded annual rate of 31.0% over the past five years.

Dear Friends:

Not very subtle I guess, but our pink eyed friends on the cover are the best way we know to symbolize "rapid growth," something as natural to us as it is to them.

The quest for rapid growth keeps us hopping. It also keeps us innovating, shaking things up, breaking down barriers; all in search of new opportunities.

Rapid, profitable growth is the best way we know to create shareholder wealth and employee opportunity, two essential ingredients for a successful corporation.

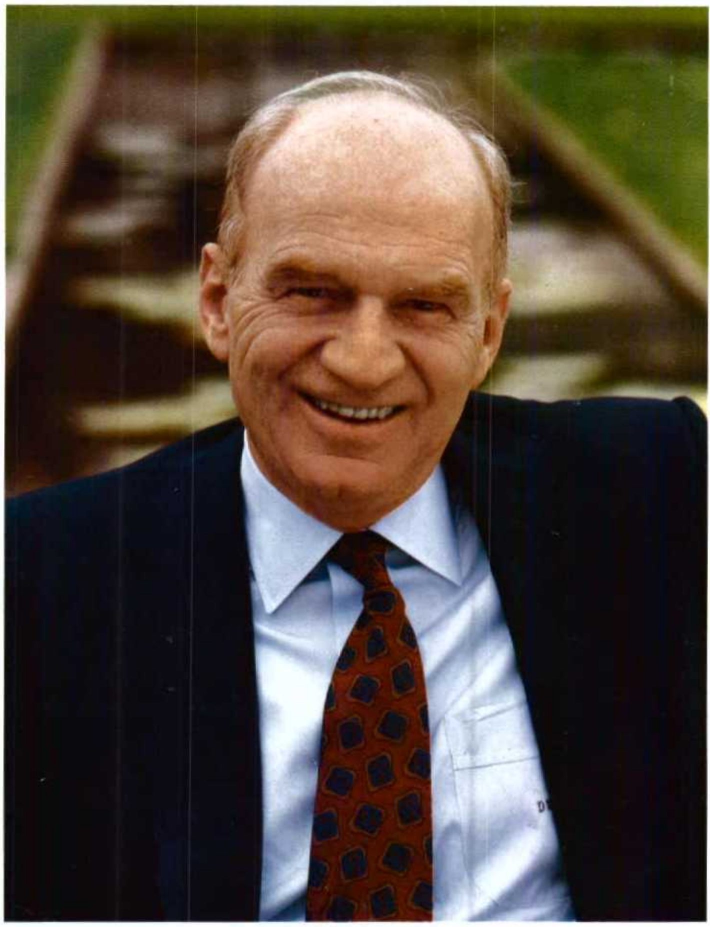
At PepsiCo, we've increased sales and net income at an exhilarating rate of nearly 15% for 26 years. That means we've doubled our business about every five years. But now that we're about $20 billion big, you might well ask, how long can this keep going on?

Forever, as far as we're concerned. At least, that's our intention. Because without growth, PepsiCo wouldn't be the same company you invested in…nor would it be an attractive place to work.

But how? Where will PepsiCo's future growth come from? How does a $20 billion company add another $20 billion in just five years?

That's the theme of this year's Annual Report. We'll describe some future opportunities: big, small, local and global. Whatever their size or scope, you can be sure that our 338,000 employees are committed to realizing their full potential. By the time you finish this report, I hope you share our enthusiasm.

But first, some words about last year.



Wayne Calloway
Chairman of the Board and Chief Executive Officer

1991 Results

The numbers were certainly not as good as we would have liked, somewhat below our historical trends. On a reported basis, net income and income per share were even with last year at $1.1 billion and $1.35, respectively. Given the economy and consumer spending, they were only partially indicative of the more powerful and underlying progress we made since last year.

- Sales reached nearly $20 billion, an increase of 10%.
- Dividends declared per share increased 20%.
- Earnings, excluding unusual items, were $1.50 per share, up 9%.
- All three businesses achieved solid sales growth, with soft drinks up 6%, snack foods up 10% and restaurants up 14%.
- Operating profits, excluding unusual items, grew 5%. Soft drinks were up 11%, restaurants up 12% and snack foods down 3%.
- The price of a share of PepsiCo stock increased 31%, better than S&P 400 growth of 27%.
- Cash from operations hit a record $2.4 billion, a 15% increase.

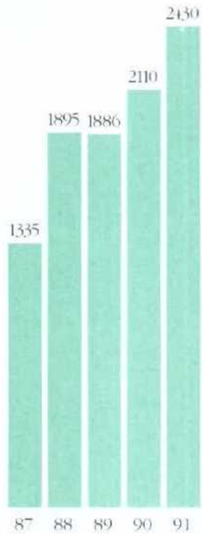
This last number is critical. Our ability to internally generate cash is one of the most important measures of our company's health because it's cash that fuels opportunity. In the last five years, our operations have provided nearly $10 billion of cash for reinvestment in our businesses and for increased dividends.

Creating Opportunities

But numbers really don't begin to describe the progress we've made. At Frito-Lay, we streamlined and decentralized our business to focus more closely on our retail customers, our consumers and the competition. In our United Kingdom snack foods operations, we consolidated facilities and our sales group. We also restructured domestic and international KFC operations. These moves will pay off in a more agile organization with increased competitiveness.

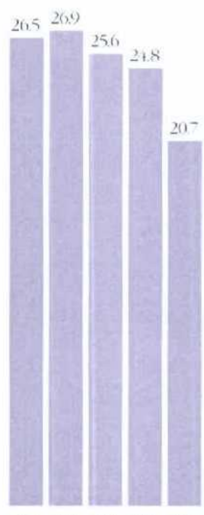
But more than just restructuring some of our businesses, over the last few years we've also identified major and long-term opportunities for future growth. We think about these opportunities in two ways: redefining our basic businesses and expanding globally. Both are big leaps forward because they change the very markets we deal in, our categories and our geography.

Net Cash Provided By Continuing Operations
($ In Millions)



Net cash provided by continuing operations has grown at a compounded annual rate of 14.9% over the past five years.

Return On Average Shareholders' Equity*
(Percent)



*Based on income from continuing operations.

When we talk about redefining our business, here's what we mean. Not too long ago, we would have described ourselves as a company in the business of soft drinks, snack chips and quick service restaurants. Today, we're in the business of beverages, snack foods and quick service food distribution.

I'm not sure if this sounds so different, but believe me it opens up huge opportunities by significantly expanding our horizons. For example, a soft drink company sells only carbonated colas and the like; a beverage company might sell things like water and tea or fruit based drinks. Also, a restaurant company is constricted to certain physical locations. A food distribution company can take its products wherever there's a customer, without necessarily making an investment in a large restaurant.

At the same time we were redefining our businesses, we also reconsidered our geographic limitations. Up until a few years ago, we were basically a strong U.S. company with a solid but limited international presence. Yes, we were doing business in nearly 150 countries, but it was primarily limited to soft drinks.

Not so today. In 1991, nearly one out of every four sales dollars came from our international operations, nearly double the level of five years ago. When you consider that 95% of the world's population is outside the U.S., you can see what that means in terms of opportunity. And this is doubly true for our kinds of products, which are in great demand everywhere on earth, with almost no economic or cultural barriers.

Let me expand on those two basic changes in our overall business proposition.

Redefining our Business

I believe there's a consumer revolution taking place across the globe and that's why we must redefine how we do business. Fueled by economics and cultural trends, the revolution involves people seeking more control of their lives, more value in the things they do and more personal freedom. The pace of change is accelerating, particularly as habits shift, lifestyles evolve and the Baby Boomers step into middle age.

Understanding this change is key to future growth and it adds up to a mandate for even higher quality products at far better prices and far more convenient locations—within an arm's reach if possible. That's why we're distributing our products in new ways, adding thousands of points of distribution in the form of delivery and kiosks and finding new outlets for our snack foods and soft drinks.

At Pizza Hut, for example, in 1977, virtually all our pizzas were sold from traditional restaurants. A few years ago, we added delivery and then express units. Now you can find Pizza Hut pizza in school lunchrooms, shopping malls, airports, hotels and sports arenas. You can even order our pizza from room service at Marriott Hotels. Taco Bell is right in there, too. Our self-contained kiosks are starting to multiply

like…well, like rabbits. When you consider that the airport terminal foodservice market alone is $1.3 billion in sales, you can see why we're popping up in unexpected places.

In snack foods and soft drinks, we're just as active in expanding our traditional businesses. We've introduced new products like Doritos brand cracker crisps, a cross between a cracker and a chip that may create a whole new snack food category. And we're moving into other beverage products with our new partners at Lipton Tea and Ocean Spray.

Expanding Globally

We're also breaking out geographically. Although our products are famous and widespread, they are vastly underrepresented with the 95% of the world's population outside the U.S. So opportunity flashes before our eyes everywhere we look.

We're off to a good start. For example, we've more than doubled the number of countries where we sell snack foods from nine in 1986 to 23 in 1991. But even that's hardly a dent when you think of the whole world.

The number of our restaurants outside the U.S. has gone from about 2,500 in 1986 to more than 5,000 today. But we've hardly begun. In the U.S., there's one of our quick service restaurants for about every 16,000 people. Internationally, there's only one for every 1,000,000 people. That's what we mean by potential.

I'll talk more about our opportunities in each of our businesses later in this report under the sections we headline "Chairman's Outlook."

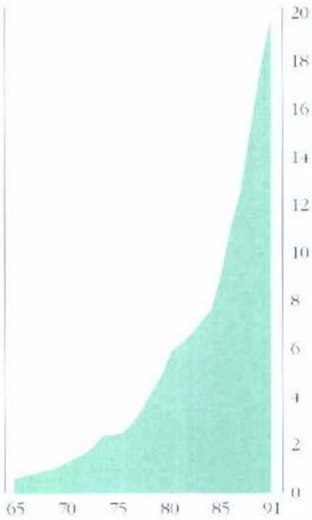
Getting Bigger to Get Better

Growth without purpose is pointless. We don't seek growth just to be bigger. Our goal is to get better.

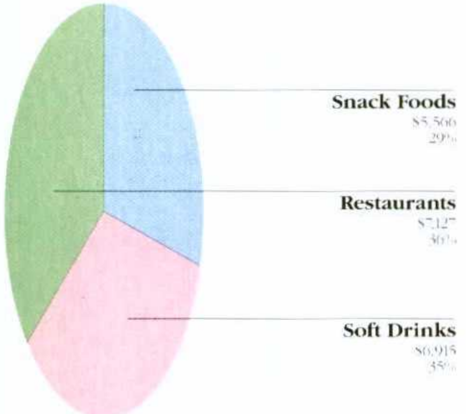
Rapid growth creates an exciting, turned-on environment that's very attractive for recruiting high potential employees. It also creates new and far bigger opportunities for current employees, allowing them to seek bigger challenges and grow personally. In that way, rapid growth links the aspirations of employees with the requirements of shareholders in a way that is very satisfying to both.

One interesting PepsiCo program symbolizes this linkage very clearly. It's called PepsiCo SharePower and it allows our full-time employees to become shareholders by giving them stock options. If the price of the stock climbs, employees benefit right along with shareholders. This means that the interests

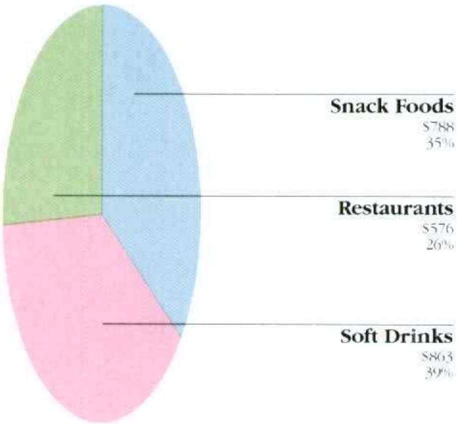
Net Sales
($ In Billions)



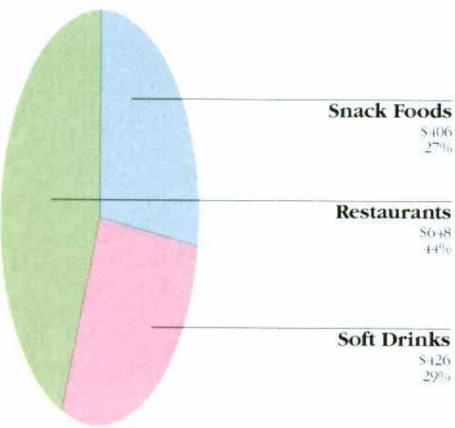
Segment Net Sales
Total: $19,608
($ In Millions)



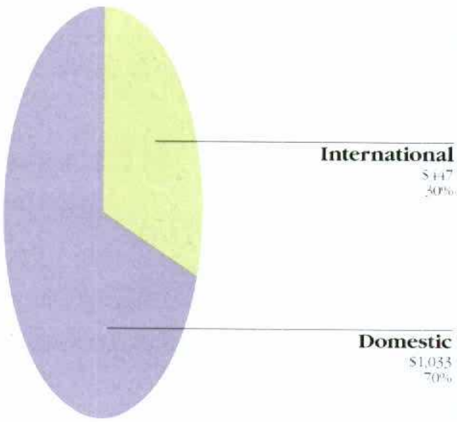
Segment Operating Profits
Total: $2,227
($ In Millions)



Segment Capital Spending
Total: $1,480
($ In Millions)



Segment Capital Spending
Total: $1,480
($ In Millions)



of shareholders and employees are tied tightly together and everyone associated with the corporation shares a strong and clear vision of the future. Since we began SharePower, PepsiCo people have stepped forward with thousands of ideas to increase the financial performance of your company.

Public Commitment

Of course, a commitment to our shareholders includes a commitment to our communities and society at large. We don't do business in a vacuum.

In regard to the environment, for example, today more soft drink containers are recycled than any other container for any other product, anywhere in the U.S. The reusable plastic bottle we're developing is another giant step forward. Each of our divisions has a long-standing commitment to finding ways to help protect the environment. Frito-Lay, for example, has been reusing cartons since the 1950s.

In these challenging times, we're also reaching out to our communities in powerful economic ways. As just one example, we have a major commitment to develop business with minority-owned suppliers. Since 1982, PepsiCo has purchased well over $1 billion of goods and services from minority vendors. Thus a strong, growing company can have impact far beyond its own businesses.

Looking Forward

The future looks good. As I think you'll see, PepsiCo has all the elements in place to make our vision come true. That's not to say the future is without challenge. But with great products, dedicated people and strong financial resources, we believe we're up to it. And, most importantly, we're absolutely committed to achieving high returns for you, our shareholders.

In this quest we will miss the wise counsel of Cliff Garvin, who retires after 17 years on our Board of Directors. Cliff's far-reaching experience has been extremely valuable and we thank him for all he did on behalf of PepsiCo. Despite Cliff's departure, we still have one of the strongest boards in all corporate America, and we have their full dedication and commitment to helping us reach our goals.

So read on. You'll find this year's report full of facts, figures, statistics and strategies. Mostly, we hope you'll find it full of promise. All of us at PepsiCo look forward to the future with great enthusiasm and excitement.

Wayne Calloway

Wayne Calloway
Chairman of the Board and Chief Executive Officer

1991 In Review and Opportunities for Growth

PepsiCo is first and foremost a growth company.

Rapid growth provides opportunity for consumers, employees and shareholders alike. It's the magic ingredient that adds fizz to our performance.

Today, we have 338,000 employees. Our sales are $20 billion. And our products, which are available in nearly 150 countries, account for an estimated $50 billion in retail sales. You might wonder if genuine rapid growth is still possible at this size. Can a large corporation that has already grown so rapidly keep it going?

You bet! And the purpose of this Operating Review is to describe just a few of our opportunities.

So let's hop to it.

Pepsi-Cola North America
Pepsi-Cola International (PCI)

($ In Millions)	
Sales	$6,915
% Change	+6
Operating Profits	$ 863
% Change	+12
Profit Margin %	12.5
Point Change*	+.6

*Excludes 1990 unusual charges described on page 35.

1991 In Review

Our soft drink business makes progress; profits leap forward. Here are some highlights:

- U.S. operating profits climb 11%, sales are up 3%. International operating profits advance 25%, sales are up 17%.
- Worldwide retail sales of PepsiCo soft drink brands are $26 billion. Brand Pepsi retail sales reach $16 billion worldwide.
- In the U.S., Pepsi-Cola moves toward becoming a total beverage company by forging alliances with Ocean Spray and Lipton Tea.
- Four of our soft drink brands—Pepsi, Diet Pepsi, Caffeine Free Diet Pepsi and Mountain Dew—are among the 10 top-selling soft drink trademarks in the U.S.
- Pepsi excites the soft drink consumer with a new logo, bold new graphics and advertising that experts and consumers call the "best of the year."

Introduced: 1898
Estimated 1991
Retail Sales: $16 Billion

Introduced: 1964
Estimated 1991
Retail Sales: $4.2 Billion

Acquired: 1986
Estimated 1991
Retail Sales: $1.6 Billion
(PepsiCo owns Brand 7UP outside the U.S.)

Acquired: 1964
Estimated 1991
Retail Sales: $2.3 Billion

Gallons Per Capita	19.1	24.0	28.6	34.9	42.1	48.2
Years	1966	1971	1976	1981	1986	1991

- Pepsi-Cola North America, consisting of Pepsi-Cola Company in the U.S. and Pepsi-Cola Canada, is established at the start of 1991 to maximize resources and coordinate plans to give us a competitive advantage.
- In the U.S. and Canada, Pepsi-Cola changes its operating philosophy, inverting its organizational structure to put the customer first. We call it the "Right Side Up" company.
- Worldwide Diet Pepsi achieves more than 33% volume growth since 1988 and is introduced into four new international markets just in 1991.
- PCI system is strengthened by major investments in almost every area of the world and the opening of 19 new bottling plants, including seven in the Commonwealth of Independent States (formerly the U.S.S.R.).
- PCI system gains cola market share in nearly all key countries, including a double-digit gain in Argentina.

Opportunities for Growth

We believe the coming decades will offer many ways to multiply our beverage business. Here are just some of the opportunities we see.

International Opportunities

- **In many international markets, consumers drink fewer soft drinks in a year than most Americans consume in a week. Even small increases in consumption can have big effects.**

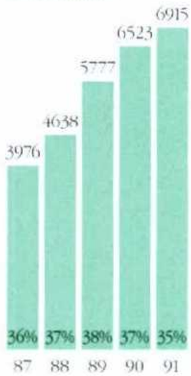
While annual per capita soft drink consumption in the U.S. is about 770 servings, in markets abroad, per capita rates average only 62 servings. In less developed markets, such as India, consumers drink as little as three servings a year. Market conditions are ripe for expansion. Rising standards of living, the opening of trade and the ability of mass communica-

Acquired: 1986
Estimated 1991
Retail Sales: $150 Million

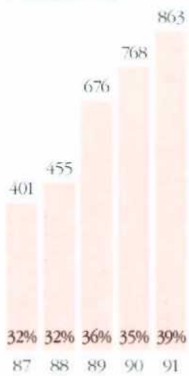
Introduced: 1984
Estimated 1991
Retail Sales: $500 Million

Opportunity: Increasing Consumption
Soft drink consumption is going vertical! U.S. consumption, which is indicative of worldwide potential, is increasing an average of 10 gallons per person every decade.

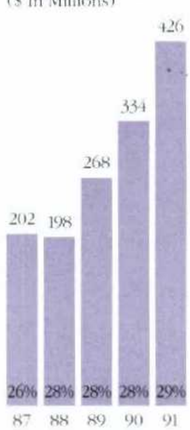
Soft Drinks Net Sales
% Of Total Net Sales
($ In Millions)



Soft Drinks Operating Profits
% Of Total Segments Operating Profits
($ In Millions)



Soft Drinks Capital Spending
% Of Total Segments Capital Spending
($ In Millions)



tions to reach more and more consumers heighten consumer interest in soft drinks. Over the past three years, international soft drink industry volume has grown at more than twice the rate of U.S. volume. We see international consumption continuing to grow at a strong pace. Plus, the U.S. is only about 5% of the world population, which leaves the other 95% to work on!

In international markets, most soft drinks are sold in single-serve bottles, one at a time. Getting consumers to take home bigger packages means they'll drink more.
Consumers who take home more soft drinks consume more soft drinks. In market after market, we're introducing Pepsi-Cola soft drinks in larger sizes and multi-packs for the burgeoning international take-home channel. These packaging changes, along with the growth of supermarkets, have led to major share increases. For example, our share of the take-home markets grew nearly 30% in Argentina.

International consumers are becoming more diet-conscious. This means attitudes are right for introducing our diet products.
We're aggressively introducing Diet Pepsi in more of our markets. And, in some — Singapore, Saudi Arabia and Germany, for example — we're the first soft drink company to use 100% NutraSweet brand sweetener. We're also the first to introduce a caffeine-free diet cola in Australia. Diet Pepsi is now in almost 70 countries, and we've been growing our volume at a compounded annual rate of more than 20% for the past three years.

In the U.S., vending machines account for 12% of soft drink sales; but they're still a rarity in many countries. We're changing this.
PCI is aggressively attacking the vending market. We've negotiated a worldwide vending machine supply agreement that guarantees us low prices. We're forming joint ventures in vending in France and Turkey. We've stepped up our vending placements in Japan, Greece, New Zealand and Germany. The result: in 1991 alone, the PCI system increased its vending machine placements by 35%. Even so, we've only just begun.

Packaging innovations still excite consumers and convince them to buy more of our products.
For proof of that, just look at Holland. There, plastic returnable bottles (PRBs) now account for about two-thirds of total sales and have increased Pepsi-Cola's share of the cola market by nearly six points since they were introduced in 1990. The PRB is one of the most significant recent innovations in soft drink packaging. It's reusable for more than 20 round trips, so it's economical. It's light, doesn't break and is recyclable. This package is being introduced in Mexico, Argentina, Colombia, Uruguay and Scandinavia with the same kind of impressive results. In the U.S., we're introducing a bottle made with 25% recycled plastic.

International bottling systems are being upgraded. This means new opportunities to improve our systems.
We're working with our international bottlers to improve quality and efficiency, and we're installing state-of-the-art computer programs to track our progress. We're bringing an increasing number of international managers to the U.S. for in-depth management

programs. And we're reinforcing our image by instituting high promotional and advertising standards throughout the world. Giving our customers the very best gives them more reason to buy our products in ever-increasing quantities.

The only thing inhibiting our international growth is how fast we can take advantage of opportunities.

We're expanding our soft drink business as fast, and as wisely, as we can. In 1991, we increased our ownership of operations in Germany. We entered into joint ventures in Chile, the Bahamas and Hong Kong and consolidated operations in Argentina, Yemen and Saudi Arabia. We've forged an agreement for a franchise in Israel. We added a franchised bottler in Poland and bottling plants in Tanzania, Spain, India, China and seven plants in the Commonwealth of Independent States, where we have the leadership position with nearly 40 bottling plants. And that's just part of what we did.

U.S. Opportunities

Nearly 33 million gallons of soft drinks are consumed each day in the U.S., yet we can continue to drive growth by increasing points of distribution.

We want consumers to have our products at arm's reach whenever they want a soft drink. To put our products in more places, we're targeting diverse sales channels such as schools, airlines and foodservice operations. In 1991, our new accounts included 150 colleges and universities, America West Airlines, and Marriott and

Chairman's Outlook

From Tbilisi to Bangkok to Guadalajara, consumers are emerging by the billions, literally. And, you know what... they enjoy soft drinks just like consumers in the U.S. Our worldwide goal is to take advantage of this enormous opportunity. Our strategies include promoting our superior brands, leading in emerging markets, building on our strong bottling relationships and using our well-honed operating skills to improve our ability to compete. Our goal is to double our international soft drink business over the next five years.

We're planning some quantum leaps in our domestic soft drink business as well. We've changed a lot more than our logo. We've changed the way we look at our business. Our new philosophy turns the corporate pyramid upside down—or "Right Side Up"—putting our customers first and recognizing that everything we do starts with them. Our strategy calls for moving beyond the traditional soft drink business into new beverages and new alliances with our suppliers and customers to build both their businesses and ours. This expanded view of our business will mean growth in results as well.

For 1992, we see solid sales and profit growth.

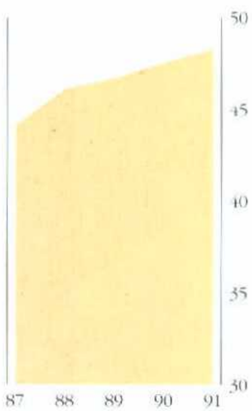
Wayne Calloway

Opportunity: Expanding Internationally
Go West (East, North and South) Young Rabbit! The international soft drink market represents 95% of the world's population but only 25% of our 1991 worldwide soft drink sales. We're out to discover new worlds, and widespread consumer enthusiasm for our brands makes them great travelers.

U.S. Beverage Consumption Pepsi-Cola System Share

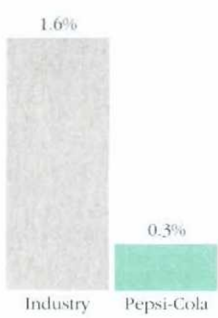
Soft drinks account for about one-quarter of all beverages consumed. Pepsi-Cola brands account for about 8% of total beverage consumption.

U.S. Soft Drink Consumption
(Gallons Per Capita)



U.S. soft drink consumption climbs to more than 48 gallons per person.

U.S. Pepsi-Cola System Case Sales Growth vs. U.S. Soft Drink Industry Growth 1991



U.S. volumes of Pepsi-Cola products are behind industry growth due to the loss of the Burger King account.

ARA foodservice operations, to name a few. To grow retail sales, we're forging alliances with major customers in a wide range of sales channels, including warehouse club stores, mass merchandisers and convenience stores. In our fountain business, we increased the number of national account outlets where Pepsi-Cola products are sold by 8%, including adding major new accounts such as Howard Johnson and Sizzler restaurants.

Almost two-thirds of U.S. consumers say they buy only well-known brands, which means building consumer recognition builds sales.
Our updated logo, introduced in 1991, reflects the bold, forward looking vision of the company. Award winning television advertising, featuring Ray Charles as well as other greats, such as Hammer and Gloria Estefan, has captured the imagination of consumers around the world and created a strong image for Pepsi-Cola brands. Innovative promotions, such as the Pepsi Summer Chill Out, draw attention to our products. Our brands are consistently in the news and in the minds of consumers. Does this build volume? "Uh-huh!" During the past five years, Pepsi-Cola U.S. system volume has grown at a compounded annual rate of 3.9%.

Soft drinks represent about one-quarter of all beverages consumed in the U.S. That means the remaining three-quarters of the beverage market provides wide-open opportunities.
We're redefining our markets. In 1991, we entered into alliances with Ocean Spray and Lipton Tea to offer our customers more beverage options. New products such as All Sport, a thirst quenching sports drink now in test market, attract new consumers. Other beverages, carbonated and non-carbonated, are being developed. These include a clear cola as well as flavored carbonated waters.

In the U.S. alone, our 27,000 Pepsi-Cola employees perform approximately 250,000 transactions with our customers each day. This means even slight improvements can have a big impact.
Each day we have a quarter of a million opportunities to improve our efficiency, streamline our business and convince our customers that we're their preferred beverage partner. Each opportunity, successfully seized, can increase sales and profits and create customer satisfaction. For example, in a system our size, completely accurate loading of delivery trucks can add $22 million in profits a year. We call Pepsi-Cola's new operating philosophy the "Right Side Up" company, where we exceed customers' expectations and where the employees closest to our customers are supported by the rest of the organization.

Management's Analysis

(Note: the following discussion should be read in conjunction with "Business Segments" on page 34 and "Management's Analysis—Results of Operations" on page 37.)

1991 vs. 1990

Worldwide net sales increased 6% to $6.9 billion. Domestic sales rose $137 million (3%) to $5.2 billion. The domestic advance reflected acquisitions of franchised bottlers, which contributed $122 million, and higher concentrate pricing

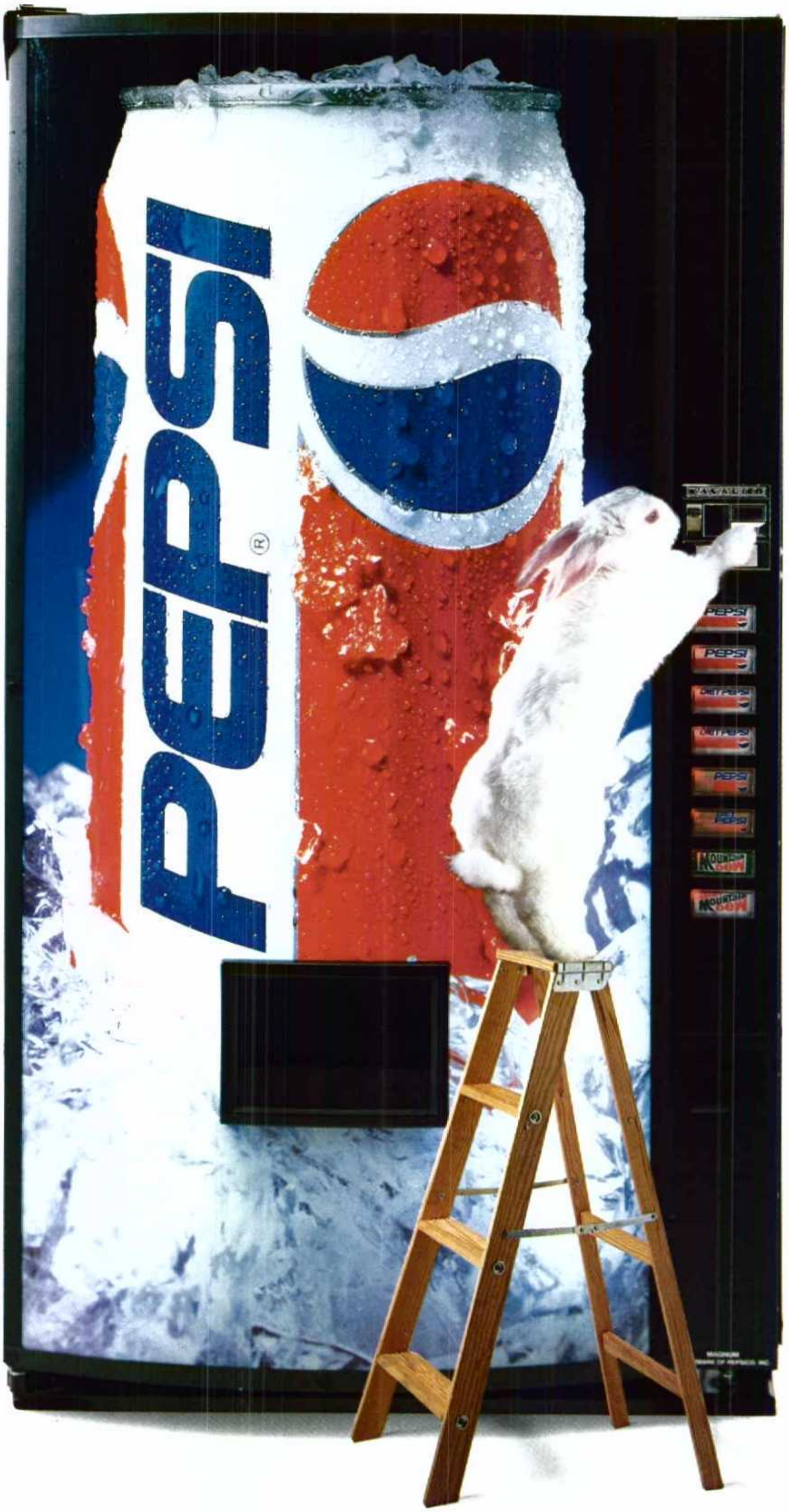
that was partially offset by lower prices in bottling operations.

International sales grew $255 million (17%) to $1.7 billion. Of this increase, acquisitions of franchised bottlers, principally in Canada, contributed $76 million and volume growth provided about $65 million, led by higher concentrate shipments to Latin America and Canada and finished product sales to franchisees in Japan. The balance of the growth was primarily due to higher prices led by Latin America.

Soft drink retail sales volume is measured in system bottler case sales (case sales), consisting of sales by company-owned and franchised bottlers to retailers. Domestic case sales were about even compared to 1990, but rose 2% excluding the impact of the Burger King fountain business lost to a competitor in 1990. This performance was driven by gains in Mountain Dew and Diet Pepsi products, partially offset by a decline in Brand Pepsi. International case sales increased 6%, but rose 8% excluding the impact of the halt in August 1990 of concentrate shipments to franchised bottlers in Iraq. This performance was driven by double-digit growth in Latin America led by Argentina. Case sales growth was aided by emerging markets such as India and China.

Worldwide operating profits advanced 12% to $863 million. Profits in 1990 included domestic unusual charges of $10.5 million for receivables exposures related to highly leveraged retail customers. Excluding the 1990 unusual charges, profits were up 11%. Profits included amortization of goodwill and other intangibles (principally domestic) of $118 million in 1991 and $111 million in 1990.

Domestic profits rose 11% to $746 million. Excluding the 1990 unusual charges, profits grew

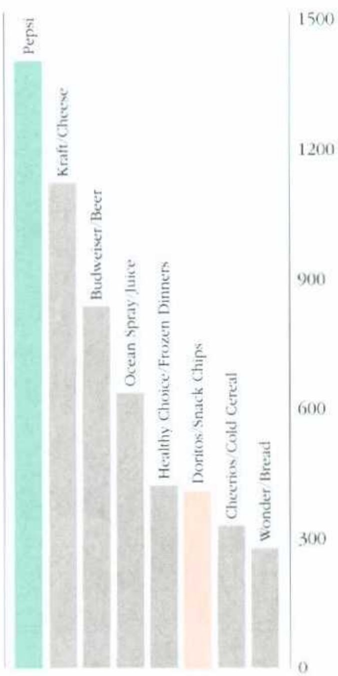


Opportunity: Increasing Distribution Points
Our goal is to put our soft drinks within a paw's reach, anytime and anywhere. Take vending, for example. In international markets, we've multiplied the number of our vending machines by nearly 75% in just two years.

U.S. Soft Drink Industry Retail Sales Pepsi-Cola Share

U.S. retail sales of soft drinks total $47 billion. Pepsi-Cola brands account for nearly one-third of the market.

Top-Selling Food Categories In Major U.S. Supermarkets
(Sales In $ Millions)



Brand Pepsi retail sales in major U.S. supermarkets are higher than the retail sales of the leading brands of other top-selling supermarket food categories.

$62 million (9%). Acquisitions of franchised bottlers provided $7 million of this increase. The balance of the profit growth reflected higher concentrate prices and lower ingredient costs, partially offset by higher marketing costs and lower prices in bottling operations. The domestic profit margin, excluding the 1990 unusual charges, grew almost one point to 14.4%.

International profits increased $23 million (25%) to $117 million. This performance reflected about $15 million from higher concentrate shipments and $5.7 million in gains on asset sales, consisting of the sale to a third party of certain notes receivable previously written-off and the sale of an unused concentrate plant. Price increases were largely offset by higher operating and marketing expenses led by Latin America. The international profit margin increased by almost one-half point to 6.7%.

1990 vs. 1989

Because of the significant impact of several 1989 franchised bottler acquisitions and the 1989 reconsolidation of a bottling operation in Japan previously held for sale, the analysis provides comparisons excluding the 1990 results of these operations for the corresponding periods that the operations were not reflected in 1989 results. Worldwide sales increased 13% to $6.5 billion. Excluding the impact of acquired and reconsolidated operations, sales increased 9%.

Domestic sales rose 9% to $5.0 billion. Excluding the impact of acquisitions, sales rose $245 million (5%) with strong volume growth contributing about $170 million to the increase. Higher pricing in both concentrate and bottling operations aided the growth. International sales grew 29% to $1.5 billion. Excluding the impact of acquired and reconsolidated operations, sales advanced $256 million (22%). Volume growth provided about $140 million of the sales increase, reflecting higher finished product sales to franchisees in Germany and Japan and increased concentrate shipments. The remainder of the growth was due to price increases, a favorable translation impact of about $35 million due to a weaker U.S. dollar and higher sales in bottling operations.

Domestic case sales grew 3% over 1989. Excluding the lost Burger King business, domestic case sales rose 4%. This growth reflected strong gains in Diet Pepsi, Mountain Dew and Mug products, partially offset by declines in Slice products. International case sales increased 5% as strong sales in Western Europe, Asia and Latin America were partially offset by declines in the Middle East due to the halt of concentrate shipments to franchised bottlers in Iraq and Kuwait. Excluding Iraq and Kuwait from both years, international case sales growth was 7%.

Worldwide profits advanced 14% to $768 million. Profits in 1990 included domestic unusual charges of $10.5 million for receivables exposures related to highly leveraged retail customers. Unusual items in 1989 included a $32.5 million credit resulting from a decision to retain the bottling operation in Japan previously held for sale and a $12.3 million charge

to decentralize international operations. Excluding the 1990 and 1989 unusual items, as well as the impact of acquired and reconsolidated operations, worldwide profits were up 18%. Profits included amortization of goodwill and other intangibles (principally domestic) of $111 million in 1990 and $102 million in 1989.

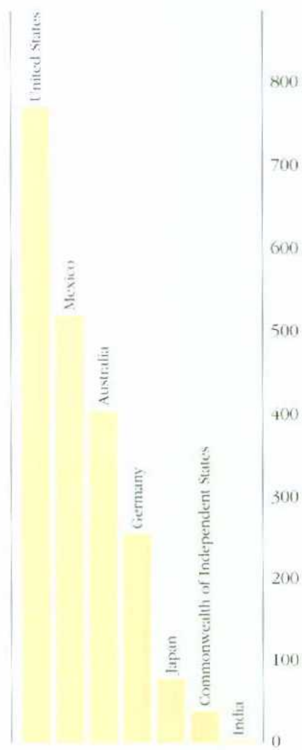
Domestic profits increased 17% to $674 million. Excluding the impact of acquisitions and the 1990 unusual charges, profits grew $99 million (also 17%). Volume-related growth of about $95 million was the principal driver of this profit increase, as price increases were essentially offset by higher marketing and other operating expenses. The loss of the low margin Burger King fountain business did not significantly impact profits. The domestic profit margin, excluding the unusual charges, grew over one point to 13.6%.

International profits declined 5% to $94 million. Excluding the 1989 unusual items and the impact of acquired and reconsolidated operations, profits increased $20 million (25%). This growth reflected about $30 million from increased concentrate shipments and higher finished product sales, as well as improvements in bottling operations. These benefits were partially offset by marketing and other operating expense increases that exceeded higher prices. The international profit margin, including the acquired and reconsolidated operations but excluding the 1989 unusual items, declined one-half point to 6.3%. The decline was primarily due to decreased concentrate shipments to the Middle East.

International Soft Drink Industry Case Sales Pepsi-Cola and 7UP Share

Pepsi-Cola and 7UP brands are available in nearly 150 countries outside the U.S. and account for about 16% of the international soft drink market.

International Soft Drink Consumption vs. U.S. Consumption
(8 Oz. Servings Per Capita)



Per capita consumption rates of carbonated beverages around the world are relatively low compared with U.S. rates.

Frito-Lay, Inc. PepsiCo Foods International (PFI)

($ in Millions)

Sales	$5,566
%Change	+10
Operating Profits	$ 788
% Change	−16
Profit Margin %*	16.4
Point Change	−2.3

*Excludes unusual charges described on page 35

1991 In Review

Strong competition, a U.S. potato shortage and major actions to streamline our businesses reduced profits, but we're in an excellent position to get our snack foods profit results back on track. Here are some highlights:

- International sales are up 16%; snack chip kilo volumes grow 6%. U.S. sales are up 8%; pound volumes climb 7%. Worldwide retail system sales of PepsiCo snack food products hit $9.7 billion.
- Frito-Lay continues to generate successful new products. Retail sales of Sunchips brand multigrain snacks and Tostitos brand restaurant style tortilla chips both reach $100 million in just one year.
- Frito-Lay is restructured to focus daily business operations on servicing the retail customer and offering the consumer more value for each dollar.
- Mass merchandisers and warehouse club stores become the

fastest growing channels for Frito-Lay products.

- Around the globe, PFI, our international snack foods business, adds some 50,000 new accounts to its system in just one year.
- PFI enters joint ventures in Poland and Venezuela and takes complete ownership of Arnott's Snacks in Australia, which was previously a joint venture. Major investments in Mexico, Spain, Portugal and Brazil will significantly expand operations.
- U.K. operations are restructured to improve productivity.

Opportunities for Growth

That's the present. But the future is even more exciting. Here are just a few opportunities to build our snack foods business around the globe.

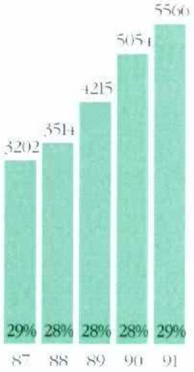
International Opportunities

- **Our products are still unavailable to about 70% of the world's population. We're changing that as fast as we can.**

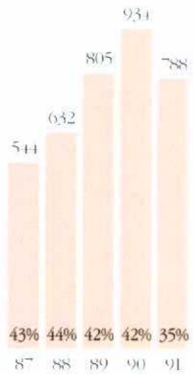
Although we're the world's largest snack chip company, there are still over one hundred markets with no major snack food operations. PFI has grown from a nine country business with system retail sales of about $600 million in 1986 to a 23 country operation with system retail sales of more than $4 billion in 1991. And that's just for starters. We're moving quickly to open new markets with significant potential. In 1991, operations in Venezuela and Poland were added to the list of PFI businesses. We've also introduced more of our major brands to international markets. For example, consumers in Egypt and Thailand can now buy Chee•tos brand cheese flavored snacks and consumers in the U.K. have been introduced to Ruffles brand potato chips.

Opportunity: Creating New Products
New products perk up sales. In 1991, Sunchips multigrain snacks joined our growing list of best-selling brands. Also, Tostitos new restaurant style tortilla chips added another $100 million at retail to total Tostitos brand sales.

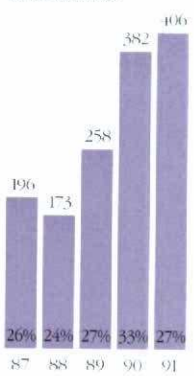
Snack Foods Net Sales
% Of Total Net Sales
($ In Millions)



Snack Foods Operating Profits
% Of Total Segments Operating Profits
($ In Millions)



Snack Foods Capital Spending
% Of Total Segments Capital Spending
($ In Millions)



International consumers eat about one-sixth the amount of snack chips consumed by their U.S. counterparts, but snacking is becoming more popular every day.

The average U.S. consumer eats about 15 pounds of snack chips annually. The annual per capita consumption in our international markets is about two and one-half pounds. In 1991, we grew our international volumes 6%. How? In every way we could. In Mexico, for example, we boosted volumes at double-digit levels by adding new routes, introducing new products and line extensions of existing products and sponsoring exciting events such as a car give-away for adults and a promotion for children that featured cartoon characters. Then, to supply this growth, we built two additional plants and expanded a third. Looking around the world, we see ample room to double the size of PFI in the coming years.

International distribution is still in its infancy, so we're working to help it grow up.

Opening new routes and increasing distribution on existing routes get more of our products to more consumers. In Brazil, for example, we now have a distribution network that spans the country. We're also introducing advanced technology. For example, in Spain, we're using our highly successful hand-held computers within our sales force. This kind of initiative allows us to maintain competitive pricing, which is especially important in the growing international supermarket channel. Throughout the world, the PFI system has 70 manufacturing facilities, almost 11,000 routes and more than 50,000 employees. Our international businesses added 50,000 accounts in just the past year. To support this growth, we're building new manufacturing facilities. For example, just outside of Lisbon, Portugal, we're constructing one of Europe's largest and most advanced snack chip production facilities. The plant will produce snack chips for export to consumers in the European Community.

It costs as much as 45% more to produce a pound of our product in international markets than it does in the U.S. We're changing that.

PFI's operations have become big enough to offer economies of scale such as bulk purchasing and supplier agreements. We're working to improve raw material supplies and develop ongoing relationships with vendors. And we're improving quality at the same time. From making the products in the factory to getting them to stores quickly, we apply the same high quality standards internationally as we do in the U.S.

We're expanding our product line to go beyond chips to the entire snack food category.

In Poland, for example, we've entered into a new joint venture with Wedel, the country's leading chocolate, confectionery and cookie manufacturer. In addition to providing an existing distribution system and the opportunity to introduce Frito-Lay brands to another area of the world, our joint venture puts PFI in a new sweet snack business. For an example of what sweet snacks can mean to our business, look at Mexico, where our Sonric's sweet snack volume grew 15% in 1991.

With Gamesa, our joint venture cookie business in Mexico, about 25% of our international snack foods system sales are currently outside of snack chips, and we see plenty of potential to increase sales even more.

U.S. Opportunities

In the U.S., Pepsi is sold in twice as many outlets as Frito-Lay products, which means there are still plenty of distribution opportunities. We won't be satisfied until there's a Frito-Lay snack within easy reach of every man, woman and child in the country. We continue to add hundreds of new customers to our store-door delivery system. We're also increasing our merchandising activities with mass merchants like Wal-Mart and Kmart as well as warehouse club stores, which are some of the fastest growing retail outlets for snacks.

In the U.S., the population of snack chip consumers is growing at a faster rate than the population in general, which means there are more potential consumers. During the next decade, the core group of snackers—the 10-to-20-year-olds—is projected to grow about twice as fast as the overall population. Frito-Lay is introducing products and package sizes especially for this new generation of snackers. For example, Frito-Lay introduced Chee•tos brand cheese flavored snacks in the shape of the paw of Chee•tos spokescat Chester Cheetah. The unique shape captured the eyes and taste buds of children and retail sales of this new product exceeded $80 million in its first year. Frito-Lay's popular 25¢ Value Line snacks are great for lunch

Chairman's Outlook

A decade ago, no one except PepsiCo dreamed of a snack food company that would reach around the world—and now we have one. Our worldwide strategy is straightforward: to deliver fresh, quality products to every corner of the globe. We see the increasing acceptance of snack chips as a trend that will accelerate our growth even more. Acquisitions and our economies of scale will further strengthen us. We expect to continue to build our international operations at a rapid rate.

In the U.S., we've taken strong actions to prepare for the future. We streamlined our organization to make us a better competitor and to allow us to invest even more heavily in quality, new products and marketing, while still giving our consumers superior value. Our strategy is to take full advantage of Frito-Lay's enormous assets: financial, marketing, selling, manufacturing, distribution and research and development. Our goals are to drive growth in the snack food category, gain market share in all distribution channels and be the lowest cost competitor. The moves we made in 1991 will make us stronger in this decade and beyond.

For 1992, we expect to continue to generate sales growth and to return to solid profit growth.

Wayne Calloway

Opportunity: Distributing in New Outlets
Our snacks are becoming widely available in all channels of retail distribution: from supermarkets and convenience stores to warehouse club stores and mass merchandisers. They're also available in foodservice outlets and vending machines.

boxes. Since they were introduced in 1989, Frito-Lay has sold more than a billion of these small bags.

U.S. Baby Boomers are taking their snacking habits with them as they mature, which means we can keep our existing customers. Today's Baby Boom consumers grew up snacking on our products, and they're continuing to snack as they grow older. But they want new snacks that offer a variety of tastes and meet their changing lifestyles. We're appealing to these consumers with restaurant style tortilla chips, pretzels, ready-to-eat popcorn and low-oil versions of some of our most popular chips. In 1991, retail sales in supermarkets of these products grew 12%, with Frito-Lay's brands growing even faster at 21%. An oustanding example is Tostitos brand restaurant style tortilla chips. Introduced nationally in 1991, this popular product reached the $100 million mark in retail sales in just one year.

Chips are an increasingly popular snack, so we're expanding the category with new snacking choices. Snack chip pound consumption has risen nearly 25% in the past five years. Frito-Lay is accelerating growth in the category by introducing totally new segments—multigrain snacks and cracker crisps. Sunchips brand multigrain snacks, introduced nationally in 1991, already achieved retail sales of more than $100 million. We also have several new products in test markets: Suprimos brand snacks, a wheat-based snack chip, and Doritos and McCracken's brands cracker crisps, a cross between a chip and a cracker. We're constantly working on new products, new packaging and new ideas. Where there's a consumer, we want to have a snack available.

Frito-Lay has eight of the 10 top-selling snack chip brands in the U.S., and we're making them even bigger. Exciting line extensions and excellent marketing keep our brands growing. In 1991, for example, Frito-Lay joined with Pepsi-Cola to sponsor their first national joint promotion—a "Monster Match" Halloween promotion. The popularity of Chester Cheetah, now one of the five most popular characters in the food industry, helped increase retail sales of Chee•tos brand cheese flavored snacks by 22% in 1991. Line extensions include a Lime 'N Chile flavor of Tostitos brand restaurant style tortilla chips and a Tangy Ranch flavor of Lay's brand potato chips. Overall, Frito-Lay pound volume climbed 7% in 1991.

Opportunity: Extending Product Lines
Our biggest products produce lively offspring. Worldwide retail sales of Doritos brand tortilla chips and its line extensions are nearly $1.3 billion, making it the largest-selling snack chip brand in the world.

The overall cost per pound of materials used to produce Frito-Lay products has not increased in the last 10 years. This means more value for consumers.

In 1991, Frito-Lay improved its competitive position by restructuring—eliminating layers of management and streamlining operations. We are forging partnerships with suppliers who dedicate capacity to Frito-Lay and pass the savings back to us. We're also looking for opportunities within PepsiCo. For example, to save money on canned dips, Frito-Lay teamed with Pepsi-Cola to buy cans. This single initiative resulted in annual savings of more than $1 million.

Management's Analysis

(Note: the following discussion should be read in conjunction with "Business Segments" on page 34 and "Management's Analysis—Results of Operations" on page 37.)

1991 vs. 1990

Worldwide net sales rose 10% to $5.6 billion. Domestic sales grew $266 million (8%) to $3.7 billion, with volume growth, aided by more competitive promotional allowance programs, contributing about $255 million of the increase. The remaining growth was principally due to price increases that were partially offset by an unfavorable package size and product mix shift. Promotional allowances are reported as marketing expenses and therefore do not impact reported sales. International sales advanced $245 million (16%) to $1.8 billion, with volume gains contributing about $115 million of the increase and the balance of the growth due principally to price increases in Mexico.

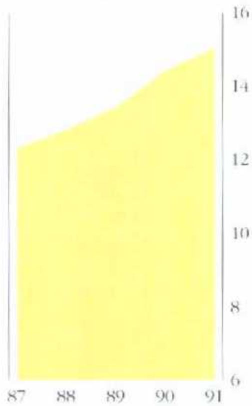
Total domestic pound sales advanced 7%, led by the new Sunchips brand multigrain snacks product, Tostitos brand tortilla chips, Lay's brand potato chips and Chee•tos brand cheese flavored snacks. These increases were partially offset by a decline in Ruffles brand potato chips. International snack chips kilo growth was 6%, driven by a double-digit advance in Mexico, while volumes in the U.K. and Spain were about even with 1990. The volume performance in the U.K. reflected the introduction of Frito-Lay's brands, principally Ruffles brand potato chips, offset by declines in other brands. Growth in smaller markets was led by Brazil.

Worldwide operating profits decreased 16% to $788 million. Profits in 1991 included unusual charges totaling $127 million, comprised of $91.4 million and $35.6 million for restructuring actions designed primarily to streamline operations of the domestic and international snack foods businesses, respectively. Approximately $64 million of the domestic charge relates to administrative workforce reorganizations and reductions, and the balance relates to product line and production capacity reductions. The international charge includes $23.6 million related to productivity initiatives in the U.K., including facility closures and streamlining of selling and administrative processes. These actions, when fully implemented, are expected to result in annual domestic and international savings approximating $100 million and $15 million, respectively, providing additional resources to reinvest in the businesses in support of marketplace strategies to strengthen competitive positions. The international charge also includes $12 million related to probable actions with respect to a small,

U.S. Snack Food Industry Retail Sales Frito-Lay Share

U.S. retail sales of snack foods, including chips, candy, cookies, crackers, nuts and other items, reach nearly $40 billion. Frito-Lay's share of this huge market is $5.3 billion, about 13%.

U.S. Snack Chip Consumption
(Lbs. Per Capita)



U.S. per capita snack chip consumption rises to 15 pounds per person.

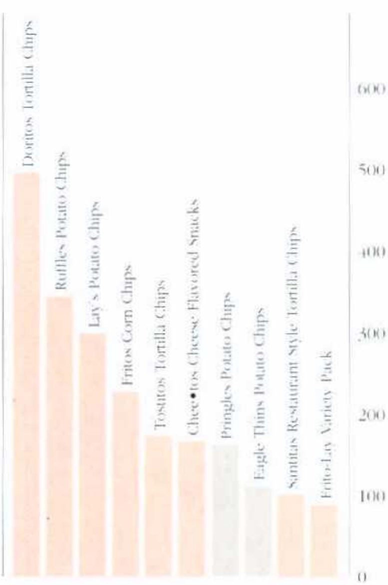
Frito-Lay Pound Sales Growth vs. U.S. Snack Food Industry Pound Sales Growth In Supermarkets 1991

In supermarkets, pound sales of Frito-Lay products grow 7.1%, compared with snack food industry growth of 4.1%.

U.S. Snack Chip Industry Retail Sales Frito-Lay Share

U.S. retail sales of snack chips, including potato, corn and tortilla chips, pretzels and ready-to-eat popcorn, are more than $10 billion. Frito-Lay's share is about half.

Top-Selling Snack Chip Items In U.S. Supermarkets
(Sales In $ Millions)



Eight of Frito-Lay's brands are among the 10 top-selling snack chip items in U.S. supermarkets.

unprofitable business, including a disposition or joint venture arrangement. Profits in 1990 included domestic unusual charges of $10.6 million for receivables exposures related to highly leveraged retail customers. Excluding the 1991 and 1990 unusual charges, worldwide profits declined 3%. Profits included amortization of goodwill and other intangibles (principally international) of $36 million in 1991 and $37 million in 1990.

Domestic profits declined 16% to $617 million. Excluding the 1991 and 1990 unusual charges, profits decreased $35 million (5%). Volume growth contributed about $145 million to profits. This benefit was more than offset by higher selling and manufacturing expenses, lower net prices (reflecting increased promotional allowances) and an unfavorable mix shift to lower profit packages and products. Higher manufacturing expenses reflected potato cost increases that were largely due to a weather-related potato crop shortage in the second quarter of 1991. Frito-Lay hedges the costs of a portion of its corn and oil purchases through commodities futures contracts, but there is no futures market for potatoes. The domestic profit margin, excluding the unusual charges, fell two and one-half points to 18.9%.

International profits decreased 15% to $171 million. Excluding the 1991 unusual charge, profits increased $5 million (2%). Volume growth contributed about $75 million to profits. This benefit was partially offset by higher manufacturing and other operating expenses that exceeded price increases. An unfavorable translation impact of a stronger U.S. dollar depressed profits by about $5 million. The profit advance reflected double-digit growth in Mexico that was partially offset by declines in Spain and the U.K. Profits were also aided by growth in Brazil. The profit performance in Mexico was due to volume growth, partially offset by manufacturing and operating cost increases that exceeded higher prices. These cost increases reflected higher commodity costs, principally potatoes, and increased costs associated with new manufacturing plants completed in early 1991. The U.K. profit decline was due principally to higher operating expenses, partially offset by price increases and improved manufacturing productivity. An unfavorable translation impact also contributed to the U.K. profit decline. Spain's profit declines were driven by higher operating costs due in part to strategic spending initiatives. Profit growth in Brazil was driven by higher volumes. The international profit margin, excluding the unusual charge, declined one and one-half points to 11.3%.

1990 vs. 1989

Because of the significant impact of the July 1989 acquisition of Smiths and Walkers in the United Kingdom (the U.K. operations), the analysis provides comparisons excluding the 1990 results of the U.K. operations for the corresponding period that the operations were not reflected in 1989 results. Worldwide sales rose 20% to $5.1 billion. Excluding the impact of the U.K. operations, sales increased 14%.

Domestic sales grew $260 million (8%) to $3.5 billion with strong volume growth contributing about $190 million of the increase. The remaining growth was due principally to increased prices. International sales increased 58% to $1.6 billion. Excluding the impact of the U.K. operations, sales increased

$328 million (33%). Strong volume gains contributed about $135 million of this increase, while the favorable translation impact of a weaker U.S. dollar added another $87 million. The balance of the growth reflected price increases and a small acquisition.

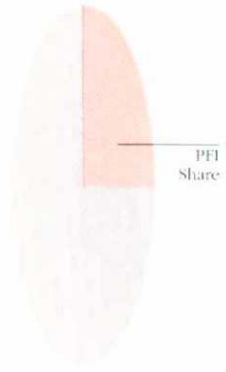
Total domestic pound sales advanced 6% in 1990. This growth was led by increases in Santitas brand tortilla chips, Crunch Tators and Ruffles brands potato chips, Rold Gold brand pretzels and Chee•tos brand cheese flavored snacks, partially offset by declines in Fritos brand corn chips. International snack chips kilo growth was 11%, with even stronger gains in Mexico and Spain partially offset by a slight decline in the U.K. This growth rate includes the U.K. operations for only the second half of 1990 and 1989. Kilo performance in the U.K. reflected softness in certain potato chip brands and lower private label shipments. Introductions of Frito-Lay's global brands are expected to stimulate volume growth in the U.K.

Worldwide profits increased 16% to $934 million. Profits in 1990 included domestic unusual charges of $10.6 million for receivables exposures related to highly leveraged retail customers. Profits in 1989 included a domestic net unusual charge of $2.3 million, consisting of a $6.6 million reorganization charge partially offset by a $4.3 million credit resulting from a decision to retain a cookie production plant previously held for sale. Excluding the 1990 and 1989 unusual items and the impact of the U.K. operations, worldwide profits grew 14%. Profits included amortization of goodwill and other intangibles (principally international) of $37 million in 1990 and $18 million in 1989, with the increase reflecting the acquisition of the U.K. operations.

Domestic profits grew 10% to $732 million. Excluding the 1990 and 1989 unusual items, profits advanced $73 million (11%). Volume growth contributed about $120 million of the profit increase. Partially offsetting the volume related growth were higher promotional and other operating expenses, due in part to new product introductions, that exceeded the combined effect of price increases and lower costs of potatoes and cooking oils. The domestic profit margin, excluding unusual items, grew one-half point to 21.4%.

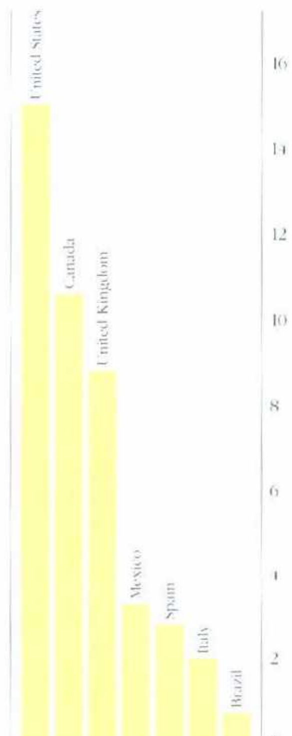
International profits advanced 47% to $202 million. Excluding the impact of the U.K. operations, profits increased $40 million (29%). Of this increase, volume growth contributed about $80 million and the favorable translation impact of a weaker U.S. dollar contributed $12 million. Partially offsetting these benefits were operating cost increases in excess of price increases. The international profit advance was driven by results in Mexico that reflected the volume growth. The U.K. and Spain also contributed to the profit increase. The U.K.'s profit advance was primarily the result of price increases, lower pension expense and a favorable translation impact, while Spain's results reflected the volume growth and a favorable translation impact. The international profit margin, including the U.K. operations, decreased almost one point to 12.8% principally as a result of the amortization of goodwill and other intangibles related to the U.K. operations.

International Snack Chip Industry Retail Sales PFI System Share



International retail sales of snack chips total about $13.1 billion. Products of the PFI system represent about one-quarter of this market.

International Snack Chip Consumption vs. U.S. Consumption
(Lbs. Per Capita)



Low international per capita snack chip consumption rates provide enormous potential for PepsiCo's international snack foods business.

Pizza Hut
Taco Bell
KFC

($ in Millions)	
Sales	$7,127
% Change	+14
Operating Profits	$ 576
% Change	+10
Profit Margin %*	8.7
Point Change	−.1

	Pizza Hut	Taco Bell	KFC
Sales	**$3,258**	**$2,038**	**$1,831**
% Change	**+10**	**+17**	**+20**
Operating Profits	**$ 315**	**$ 181**	**$ 81**
% Change	**+28**	**+21**	**−37**
Profit Margin%*	**9.7**	**8.9**	**6.7**
Point Change	**+.7**	**+.1**	**−1.9**
System Sales	**$5,300**	**$2,800**	**$6,200**
% Change	**+8**	**+15**	**+7**

*Excludes unusual charges described on page 35

1991 In Review

Although most people believe the restaurant industry was soft in 1991, consumers continued to eat away from home as much as ever and sales in our restaurant business grew at an impressive rate. Pizza Hut, Taco Bell and KFC continue to be the leaders in their categories. Here's how we did:

- Company sales grow 14%. Pizza Hut is up 10%. Taco Bell is up 17% and KFC is up 20%. Worldwide system sales of Pizza Hut, Taco Bell and KFC total $14.3 billion.
- International company sales jump 27%. Profits grow 28%. International operations of Pizza Hut and KFC achieve strong double-digit growth in sales and profits.
- U.S. company sales are up 13%. Profits grow 7%. Pizza Hut and Taco Bell generate double-digit profit growth.
- In the U.S., KFC achieves double-digit sales growth with acquisitions, although profits decline. The company begins restructuring operations to restore profit growth.
- PepsiCo worldwide restaurant system reaches nearly 21,000 units. New points of distribution are added at an average of more than three per day.
- Internationally, Pizza Hut opens in four new markets, Taco Bell in three and KFC in two.
- Pizza Hut U.S. systemwide delivery sales top the $1.2 billion mark.

Estimated System Retail Sales
When Acquired in 1977: $436 Million
1991: $5.3 Billion

Estimated System Retail Sales
When Acquired in 1978: $212 Million
1991: $2.8 Billion

Estimated System Retail Sales
When Acquired in 1986: $3.5 Billion
1991: $6.2 Billion

Pizza Hut is named America's favorite place for pizza for the eighth straight year in a consumer poll conducted by Restaurants & Institutions magazine. Worldwide system sales reach a record high of $5.3 billion.

- Successful permanent value pricing at Taco Bell helps boost worldwide system sales to a record $2.8 billion.
- KFC restaurant refurbishing, new variety buckets and new products like Skinfree Crispy chicken, Hot & Spicy chicken and Honey BBQ Wings help move worldwide system sales to a new high of $6.2 billion.

Opportunity: Expanding Our Systems

We're adding units, distribution channels and products to stir up restaurant sales at "hare raising" rates. And we've only just begun!

Opportunities for Growth

We have tremendous potential to expand. Here's a look at some of our key opportunities internationally and in the U.S.

International Opportunities

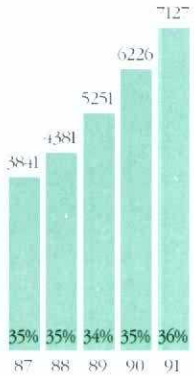
- **We're the world's biggest restaurant system, but our international restaurants are in only about 80 countries. We're changing that.**

Our vision is to be everywhere anyone wants pizza, tacos or chicken. We made excellent progress in 1991. Pizza Hut opened in Aruba, Cyprus, Gibraltar and new regions in the United Kingdom, bringing its international system total to 63 countries. KFC opened in France and Chile and reentered Kuwait, bringing its international system total to 63 markets. Taco Bell opened units in Aruba, Korea and Saudi Arabia, increasing its international system total to 11 countries. And we're investigating at least another 20 countries.

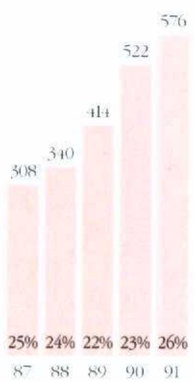
- **In the U.S., there is one of our units for every 16,000 people. In the rest of the world, we have only one unit for every one million people. So, we can add units worldwide for decades without reaching saturation.**

Two-thirds of our international system restaurants are in just four markets: Canada, Japan, Australia and the United Kingdom. Even in these markets, we only have one restaurant for every 66,000 people. Outside of the U.S., the Pizza Hut system added 221 units in 1991 and the KFC system added 243 units. We plan to increase the number of units in our international system by more than 80% during the next five years, which still leaves plenty of room to expand.

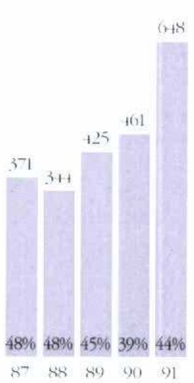
Restaurants Net Sales
% Of Total Net Sales
($ In Millions)



Restaurants Operating Profits
% Of Total Segments Operating Profits
($ In Millions)



Restaurants Capital Spending
% Of Total Segments Capital Spending
($ In Millions)



U.S. Opportunities

Each day around the world, our systems serve more than 10 million customers. It seems like a lot until you realize that in the U.S. alone, about 134 million people eat food prepared away from home every day. To us, that's opportunity.

So we're adding more units. When a customer makes an eating decision on impulse and goes into the nearest quick service restaurant, we want it to be one of ours. When a consumer is searching for our products specifically, we want to be found easily. In 1991, Pizza Hut and Taco Bell each added more than 300 new units to their U.S. systems. KFC added 50 units and was busy refurbishing older units to make them more attractive to consumers. During 1991, we added system units at a rate of about two a day. During the next five years, we expect to add units in the U.S. even faster, at an average of four per day.

More than 40% of all adults in the U.S. have a meal delivered from a restaurant at least once a month. We're becoming a front-runner in this market segment.

Six years ago, Pizza Hut Delivery was just an idea. Today, it's our fastest growing pizza distribution channel. In 1991, U.S. systemwide delivery sales topped $1.2 billion and accounted for 30% of Pizza Hut U.S. system sales. During the next few years, we plan to add more than 1,000 delivery points to the Pizza Hut system. We're introducing delivery in our other restaurant systems, too. KFC Delivery is being offered in more than 100 restaurants. And we've barely tapped delivery's potential.

Each day there are about 750 million meals eaten in the U.S. We want a lot more to be eaten with us.

So we're redefining our mission. No longer are we simply pizza, taco and chicken quick service restaurant operations. We're becoming pizza, taco and chicken distribution companies. Through kiosks and mobile units, we're marketing to corporate, industrial and institutional dining areas; schools and universities; parks, arenas and fairs, and any other locations where our foods can be offered. Taco Bell and Pizza Hut, for example, are selling in airports, business cafeterias, school lunchrooms and sports stadiums. KFC products are available to employees at a General Motors auto assembly plant. Pizza Hut is in hospitals and Marriott Hotels. Our goal is to satisfy hungry consumers wherever they may be.

In the U.S., consumers purchase our Pizza Hut products only once every seven weeks on average. We're working to bring them back more often.

We do it through marketing, new points of distribution and new menu options in our traditional restaurants, such as an Italian buffet we're testing. Quality is still our biggest draw. For the eighth year in a row, Pizza Hut was named America's favorite pizza chain in a consumer poll. In 1991, Pizza Hut U.S. system sales climbed to $4.1 billion, making it the leader in the $17.4 billion quick service pizza restaurant category with a 24% share.

Mexican food is still a novelty to most of the U.S. population. We're out to make it more popular.

In 1985, Taco Bell set out to become a mainstream quick service restaurant. The number of Taco Bell customers has nearly tripled since then. Why? Because in addition to opening new units,

Taco Bell is broadening its consumer base by introducing new products, offering menu variety and giving consumers more value for their dollar. In the new product area, Taco Bell is adding steak burritos to its menu. A test of a breakfast menu is being expanded. Meanwhile, the permanent low-price value strategy, introduced in 1988, continues to make Taco Bell a value leader in the industry. In 1991, Taco Bell U.S. system sales reached $2.7 billion, making it the leader in the $4.0 billion quick service Mexican-style restaurant category with a 68% share.

• **In the U.S., consumers purchase our KFC products just over once every seven weeks on average. We're working to bring them back more often.**

We do it with new products and value combinations. Recent products include Skinfree Crispy chicken, Hot & Spicy chicken and Honey BBQ Wings. New variety buckets that let consumers mix new products with old favorites have been especially successful. For example, when Honey BBQ Wings are offered as part of a variety bucket, total sales growth doubles. Around the world, we're testing a variety of non-fried products to expand into the growing chicken segment. In 1991, KFC U.S. system sales reached a record $3.4 billion, making it the leader in the $6.8 billion quick service chicken restaurant category with a 50% share.

• **Almost half of U.S. adults say they would eat out more often if it were more affordable. We're making our products value leaders.**

The U.S. consumer is more value conscious than ever before. And so are we. Taco Bell has taken the lead in the quick service industry by increasing consumer value. For the third year in a row, Taco Bell has reduced menu prices while improving margins through a combination of volume growth and

Chairman's Outlook

The major question for international restaurant growth is "How fast can we get there?" A steadily growing interest in eating away from home and the continued gravitation to convenience foods are creating an atmosphere of excitement for our restaurants. Our strategy is to take advantage of these trends by accelerating our growth in existing markets and introducing our products to new markets.

In the U.S., the restaurant business was a little sluggish in 1991—for the rest of the industry. Our total restaurant business stood out. At Pizza Hut, we'll continue to expand delivery aggressively. We're testing alternatives to our traditional dine-in concept and we're adding innovative distribution channels.

Taco Bell is also continuing its break with tradition. Alternative distribution points and the increasing use of technology to drive costs down make Taco Bell the market innovator.

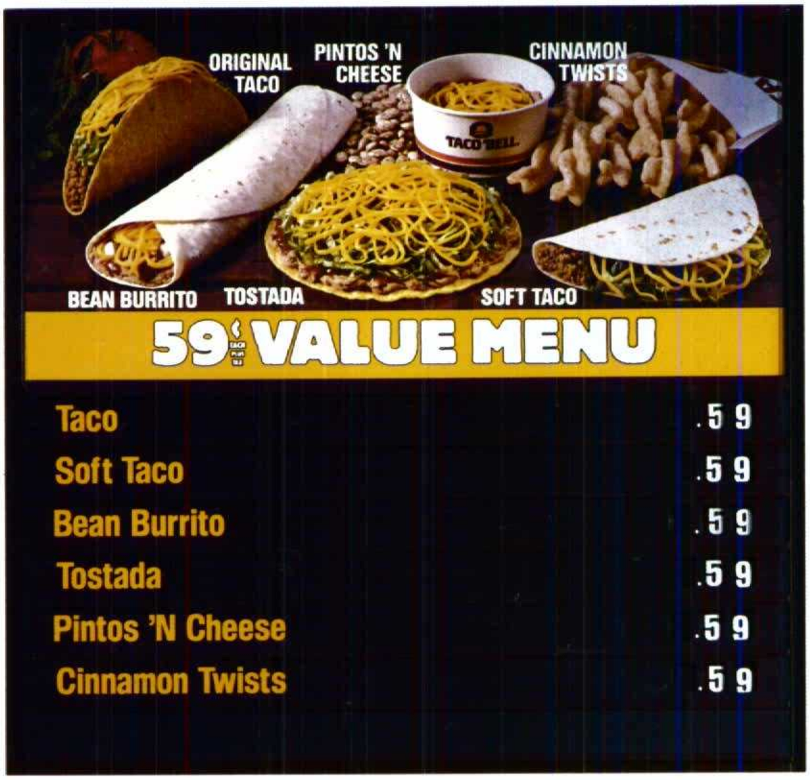
The situation at KFC in the U.S. is challenging. We're in the process of restructuring our business to greatly improve productivity and customer service. We're reorganizing our kitchens, upgrading our units and adding nontraditional distribution points.

In 1992, we expect our restaurants to achieve double-digit growth in sales and profits.

Wayne Calloway

Opportunity: Finding New Methods of Distribution

Nearly two-thirds of U.S. Pizza Hut company sales are other than traditional dine-in sales. By redefining its business to become more than a restaurant chain, Pizza Hut dramatically increased its opportunities for growth.



Opportunity: Delivering Better Value
Taco Bell has revolutionized the entire quick service restaurant industry by focusing on quality products at very good prices. The name of the game is value, and since Taco Bell began emphasizing its value menu in 1988, average sales per U.S. unit increased 38%.

higher productivity. At Pizza Hut, new technology has almost cut in half the time managers spend on administrative tasks. KFC is re-engineering its entire operations. The more we save, the more value we can give consumers.

- **The PepsiCo restaurant system buys more than $4 billion of supplies each year. Using our own food-service distribution company helps our restaurants keep prices low.**

PFS, our foodservice distribution company, supplies more than 12,000 company-owned and franchised units with everything required to run a restaurant—from food and paper goods to equipment and promotional items. The PepsiCo restaurant system gains superior service and economies of scale through consolidating purchases, delivery schedules and warehousing. In 1991, PFS expanded its Canadian operations. We're planning Australian and Mexican distribution centers to support our international restaurant growth. And we're working to provide PFS service to more of our system restaurants. Comparing 1991 to 1990, PFS saved PepsiCo system restaurants almost $35 million in food and supply costs. Now PFS is introducing technology that will reduce costs in our restaurant system by $50 million over the next five years.

Management's Analysis

(Note: the following discussion should be read in conjunction with "Business Segments" on page 34 and "Management's Analysis—Results of Operations" on page 37.)

1991 vs. 1990

Worldwide net sales rose $901 million (14%) to $7.1 billion. Domestic sales grew 13% to $6.3 billion

and international sales were up 27% to $869 million. The worldwide sales advance reflected $695 million from additional units (units constructed or acquired from franchisees, net of units closed or sold) and about $280 million from volume growth. These increases were partially offset by lower net prices at Pizza Hut and Taco Bell.

Worldwide operating profits grew 10% to $576 million, with domestic profits up 7% to $480 million and international profits up 28% to $96 million. Profits in 1991 included $43 million in KFC unusual charges described below. Profits in 1990 included unusual charges of $17.6 million to close underperforming units at all three chains and $10.4 million at Pizza Hut to consolidate domestic field operations and relocate international headquarters.

Excluding the 1991 and 1990 unusual charges, worldwide profits rose $68 million (12%), with domestic and international profits up 10% and 25%, respectively. The worldwide profit advance reflected about $120 million from volume growth and $70 million from additional units, with lower domestic food costs and higher franchise royalty revenues also contributing to the profit growth. These benefits were partially offset by the lower net prices and higher operating expenses.

Pizza Hut's worldwide sales increased $308 million (10%) to $3.3 billion. The domestic operations represent the major portion of worldwide Pizza Hut. Of the worldwide sales advance, $292 million came from additional units and volume growth contributed about $85 million. These increases were partially offset by lower net prices, due to a higher level of restaurant price promotions, and lower wholesale prices for food products sold to franchisees. Worldwide profits grew 28% to $315 million. Excluding the 1990 unusual charges, profits rose $49 million (19%), reflecting $32 million from additional units and about $30 million from volume growth. These benefits were partially offset by the net impact of the lower net prices, higher labor costs, favorable food costs (principally cheese) and higher franchise royalty revenues. Due partly to benefits of the 1990 reorganization, total domestic field and headquarters overhead expenses were about even with last year. Comparable sales for domestic company-owned units (same store sales) advanced 1% though volume growth was higher. Strong same store sales and profit growth in both delivery-only units and traditional restaurants with delivery were partially offset by declines in other traditional restaurants.

Pizza Hut's international sales and profits posted double-digit growth. The sales increase was driven by additional units in Germany and Canada and volume growth in Australian delivery operations. Profit growth was led by higher franchise royalty revenues and strong results in Australia and Canada.

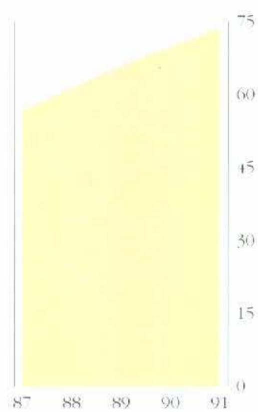
Pizza Hut's worldwide profits included amortization of goodwill and other intangibles (principally domestic) of $26 million in 1991 and $20 million in 1990, with the increase reflecting acquisitions of franchisees. The worldwide profit margin, excluding the 1990 unusual charges, grew over one-half point to 9.7%.

Taco Bell's worldwide sales rose $293 million (17%) to $2.0 billion. The domestic operations represent substantially all of worldwide Taco Bell. Volume growth contributed about $180 million to the worldwide sales advance and additional units provided $151 million. Partially offsetting these benefits were lower value-oriented menu prices in restaurants and lower wholesale prices for food products sold to fran-

U.S. Foodservice Industry Retail Sales PepsiCo Share

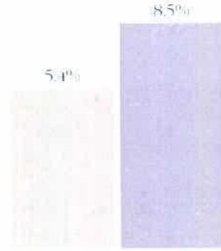
PepsiCo U.S. restaurant system sales represent 4% of the total $248 billion U.S. foodservice industry.

U.S. Quick Service Restaurant Sales
($ In Billions)



U.S. quick service restaurant sales reach nearly $74 billion.

PepsiCo U.S. Restaurant System Sales Growth vs. U.S. Quick Service Industry Growth 1991



PepsiCo U.S. restaurant system sales grow 8.5%, compared with quick service restaurant industry sales growth of 5.4%.

chisees. Worldwide profits grew 21% to $181 million. Excluding the unusual charge in 1990, profits rose $27 million (18%). Of this increase, volume growth contributed about $80 million and additional units provided $15 million. Higher franchise royalty revenues also aided profits. Partially offsetting these benefits were the lower prices and higher store operating costs, as well as increased headquarters overhead expenses that included strategic spending for field operations management hiring and training, new retail distribution concepts and advanced computer systems for stores. The impact of lower food costs was offset by the increased use of more costly pre-prepared ingredients, which has improved labor efficiency. Same store sales grew 5% though volume growth was higher. Taco Bell's profits included amortization of domestic goodwill and other intangibles of $11 million in 1991 and $8 million in 1990. On a small base, Taco Bell's international operations posted double-digit sales growth, reflecting volume gains in Canada, while losses were about even with 1990. The worldwide profit margin, excluding the 1990 unusual charge, was even at 8.9%.

Opportunity: Improving Efficiency
PFS is our own foodservice distribution company. Its relentless pursuit of economies has allowed our restaurants to drive down costs.

KFC's worldwide sales rose $300 million (20%) to $1.8 billion. Additional units contributed $252 million of the increase and about $15 million came from international volume gains. Higher net prices also aided growth. KFC's international sales represented about 30% of KFC's worldwide sales in both 1991 and 1990.

KFC's worldwide profits fell 37% to $81 million. Profits in 1991 included a $34 million unusual charge primarily for a restructuring of domestic processes to improve overall productivity and customer service. The charge includes costs for the intended elimination of certain positions, relocation of personnel and closing of offices. These actions, when fully implemented, are expected to result in annual savings approximating $25 million, yielding additional resources to reinvest in the business and strengthen KFC's competitive position. Profits in 1991 also included a $9 million domestic unusual charge associated with a delay of the national roll-out of the new Skinfree Crispy product. The charge included payments to suppliers for unrecovered start-up costs and unused capacity costs due to lower 1991 production levels. Improvements in the product's quality and profitability have been achieved, and the national roll-out is scheduled for March 1992.

Excluding the 1991 and 1990 unusual charges, KFC's worldwide profits fell $8 million (6%). The lower profits reflected higher store operating costs, due largely to higher domestic product costs, as well as increased field and headquarters overhead expenses. These factors were partially offset by contributions from additional units of $23 million, higher net prices, international volume growth and increased franchise royalty revenues. KFC's international profits represented about 55% of KFC's worldwide profits in 1991 and 45% in 1990.

Double-digit growth in KFC's domestic sales was primarily due to additional units and a reduced level of price promotions. Profits declined reflecting the higher cost of the pre-prepared Skinfree Crispy product and increased store operating costs and overhead expenses, partially offset by

the reduced level of price promotions and additional units. Same store sales were about even with 1990 though volume declined.

KFC's international sales and profits posted double-digit growth, driven by additional units in Canada and Australia, higher volumes led by Mexico and growth in franchise royalty revenues. Partially offsetting these profit advances were higher store operating costs and overhead expenses that exceeded increased prices.

KFC's worldwide profits included amortization of goodwill and other intangibles of $17 million in 1991 and $12 million in 1990, with the increase reflecting acquisitions of domestic and international franchisees. The worldwide profit margin, excluding the 1991 and 1990 unusual charges, fell nearly two points to 6.7% primarily due to lower domestic profits.

1990 vs. 1989

Worldwide sales rose $975 million (19%) to $6.2 billion. Domestic sales grew 18% to $5.5 billion and international sales increased 21% to $685 million. Of the worldwide increase, additional units contributed $515 million and volume growth provided about $480 million. Worldwide profits rose 26% to $522 million, with domestic profits up 25% to $447 million and international profits up 30% to $75 million.

Results in 1990 included unusual charges of $17.6 million to close underperforming units (substantially all domestic) as follows: $9.0 million at Pizza Hut, $4.0 million at Taco Bell and $4.6 million at KFC. Unit results are regularly monitored and, on a recurring basis, PepsiCo records charges for intended closures of specific underperforming units. In 1990, an intensive review was performed to strengthen the overall restaurant portfolio, resulting in an unusual increase in closures. Unusual charges in 1990 at Pizza Hut also included $8.0 million to consolidate domestic field operations and $2.4 million to relocate international headquarters. Results in 1989 included reorganization charges of $8.0 million at KFC and $5.5 million at Taco Bell to consolidate domestic field operations.

Excluding the 1990 and 1989 unusual charges, worldwide profits grew $123 million (29%), with profits up 28% domestically and 35% internationally. The worldwide growth reflected about $210 million from volume increases and $48 million provided by additional units. These benefits, as well as higher franchise royalty revenues, were partially offset by domestic value-oriented pricing strategies and higher store operating expenses.

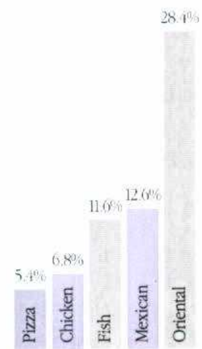
Pizza Hut's worldwide sales grew $496 million (20%) to $2.9 billion. Of this increase, $324 million was due to additional units and about $120 million came from volume gains. Increased prices and higher franchise royalty revenues also aided sales growth. Worldwide profits rose 20% to $246 million. Excluding 1990 unusual charges, profits advanced $60 million (29%). Of this growth, about $40 million was due to volume gains and $20 million came from additional units. Higher franchise royalty revenues, reflecting a new domestic franchise agreement and increased sales by franchisees, were offset by higher food and other operating costs in excess of price increases. Same store sales advanced 7%. The delivery business was a major contributor to sales and profit growth.

Pizza Hut's international sales and profits posted double-digit growth, reflecting higher franchise royalty revenues, additional units and an improved performance in Australian delivery operations. Worldwide profits included amortization of goodwill

U.S. Quick Service Restaurant Industry Retail Sales PepsiCo Share

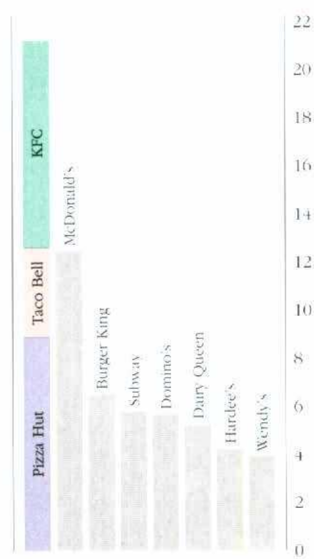
PepsiCo U.S. restaurant system sales of $10.2 billion represent 14% of the quick service industry.

Fastest-Growing U.S. Restaurant Categories 1991 Sales Growth



PepsiCo's restaurant categories—pizza, Mexican food and chicken—are among the five largest and fastest-growing quick service restaurant categories in the U.S.

Largest Worldwide Restaurant Systems
(Units In Thousands)



Combined Pizza Hut, Taco Bell and KFC units make PepsiCo the largest restaurant system in the world.

Restaurant Unit Growth

Number of System Units Worldwide (Year-end 1986-1991)

Year	Pizza Hut	Taco Bell	KFC	Total
1986	5,646	2,443	6,575	14,664
1987	6,210	2,738	7,522	16,470
1988	6,662	2,930	7,761	17,353
1989	7,502	3,125	7,948	18,575
1990	8,220	3,349	8,187	19,756
1991	8,837	3,670	8,480	20,987
Five Year Compounded Annual Growth Rate	9.4%	8.5%	5.2%	7.4%

Units include kiosks and other special concepts.

Number of System Units Worldwide (Year-end 1991)

	Pizza Hut	Taco Bell	KFC	Total
United States				
Company	4,012	2,118	1,870	8,000
Franchise	3,252	1,498	3,186	7,936
Total U.S.	7,264	3,616	5,056	15,936
International				
Company	343	29	562	934
Joint Venture	341	–	457	798
Franchise	889	25	2,405	3,319
Total International	1,573	54	3,424	5,051
Total Worldwide	8,837	3,670	8,480	20,987

Restaurant Sales Growth

(Compounded annual growth rates)

Average Domestic System Sales Per Unit (Thousands)*

	1986	1987	1988	1989	1990	1991	5 Year % Growth
PH	$468	$490	$520	$570	$607	$613	5.5
TB	560	579	589	686	771	814	7.8
KFC	529	558	597	607	650	675	5.0

*Excludes sales from kiosks and other special concepts.

Worldwide System Sales (Billions)

	1986	1987	1988	1989	1990	1991	5 Year % Growth
PH	$2.5	$2.9	$ 3.4	$ 4.1	$ 4.9	$ 5.3	16.2
TB	1.3	1.5	1.6	2.1	2.4	2.8	16.6
KFC	3.5	4.1	5.0	5.4	5.8	6.2	12.1
Total	$7.3	$8.5	$10.0	$11.6	$13.1	$14.3	14.4

and other intangibles (principally domestic) of $20 million in 1990 and $11 million in 1989, with the increase reflecting acquisitions of franchisees. The worldwide profit margin, excluding the unusual charges, rose over one-half point to 9.0%.

Taco Bell's worldwide sales grew $280 million (19%) to $1.7 billion. With the continued success of a value-oriented menu introduced in late 1988, volume gains contributed about $255 million of this growth and additional units provided $69 million. Partially offsetting these benefits were lower menu prices. Worldwide profits grew 37% to $150 million. Excluding 1990 and 1989 unusual charges, profits rose $39 million (34%). This advance reflected about $115 million from volume growth and $10 million from additional units, as well as lower field management costs and higher franchise royalty revenues. Partially offsetting these benefits were lower domestic menu prices and higher food and labor costs. Profits included amortization of domestic goodwill and other intangibles of $8 million in 1990 and $9 million in 1989. Same store sales grew 13% though volume growth was higher. Taco Bell's international sales posted double-digit growth while losses decreased on a small base. The worldwide profit margin, excluding the unusual charges, grew one point to 8.8%.

KFC's worldwide sales rose $199 million (15%) to $1.5 billion. Of this increase, $123 million came from additional units and about $100 million was due to volume gains. Higher franchise royalty revenues also aided growth. These increases were partially offset by domestic price promotions. KFC's international sales represented approximately 30% of KFC's worldwide sales in 1990 and 25% in 1989.

KFC's worldwide profits grew 28% to $127 million. Excluding 1990 and 1989 unusual charges, profits rose $24 million (22%). Volume gains contributed about $50 million and additional units provided $18 million of this increase, with higher franchise royalty revenues and increased labor productivity also aiding growth. These increases were partially offset by the domestic price promotions, increased international field management costs and higher store operating expenses. KFC's international profits represented about 45% of KFC's worldwide profits in both 1990 and 1989.

KFC's worldwide profits included amortization of goodwill and other intangibles of $12 million in 1990 and $9 million in 1989, with the increase reflecting acquisitions of domestic and international franchisees. The worldwide profit margin, excluding the unusual charges, rose one-half point to 8.6%.

Double-digit growth in KFC's domestic sales reflected strong volume gains, aided by the new Hot Wings product, and additional units, partially offset by the price promotions. Excluding the unusual charges, domestic profits increased at a double-digit rate, reflecting the volume growth, additional units and increased labor productivity, partially offset by the price promotions. Same store sales increased 5% though volume grew at a double-digit rate.

Led by Australia and Mexico, KFC's international sales posted double-digit growth, principally reflecting additional units and price increases. International profits grew at double-digit rates, principally due to higher franchise royalty revenues, additional units and volume gains. Partially offsetting these increases were higher field management and other operating expenses in excess of price increases.

Financial Review

CONTENTS

Business Segments

This information constitutes a Note to the Consolidated Financial Statements. (tabular dollars in millions)

PepsiCo operates on a worldwide basis within three industry segments: soft drinks, snack foods and restaurants. Management's discussion and analysis of PepsiCo's industry segments is presented in the text beginning on pages 12, 21 and 28 under the caption "Management's Analysis."

The soft drinks segment markets Pepsi-Cola, Mountain Dew, Slice and other brands worldwide and 7UP internationally. The segment manufactures concentrates sold to franchised bottlers worldwide and operates bottling plants located principally in the United States and Canada.

The snack foods segment manufactures and markets snack chips worldwide, with Frito-Lay representing the domestic business. The international snack foods business includes major operations in Mexico, the United Kingdom and Spain.

The restaurants segment data include operations of the worldwide Pizza Hut, Taco Bell and KFC chains. Also included in the results for each chain are the operations of PFS, PepsiCo's restaurant distribution operation, which supplies principally domestic company-owned and franchised restaurants. Restaurant net sales include net sales by company-owned restaurants, initial franchise fees, royalty and rental payments from restaurants operated by franchisees and net wholesale sales to franchisees by PFS.

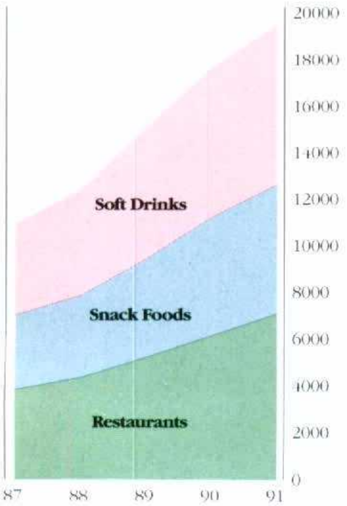
The segment data reflect a number of businesses acquired in all three years presented. The largest acquisitions, which occurred in 1989, were a franchised domestic bottling operation and two snack chip companies in the United Kingdom. The remaining acquisitions consisted primarily of franchised domestic and international bottling and restaurant operations. See Note to Consolidated Financial Statements on page 43.

The caption "Interest and Other Corporate Expenses, Net" includes interest expense, interest income, equity in net income of affiliates and other corporate items that are not allocated to the business segments. PepsiCo has invested in about 50 joint ventures, principally international and all within PepsiCo's three industry segments, in which it exercises significant influence but not control. Equity in net income of these affiliates was \$12.3 million, \$2.0 million and \$13.4 million in 1991, 1990 and 1989, respectively. The decline in 1990 reflects a \$15.9 million unusual charge to reduce the carrying value of a Pizza Hut international joint venture investment.

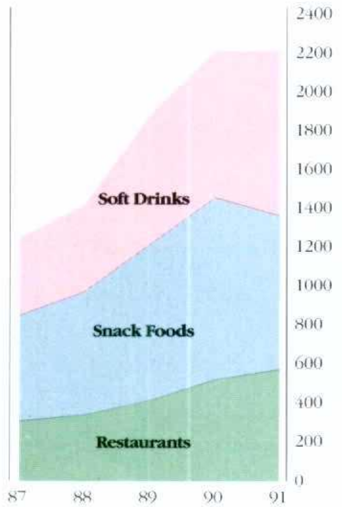
Corporate identifiable assets consist principally of offshore short-term investments and investments in affiliates. PepsiCo's investments in affiliates totaled \$1.1 billion at both year-end 1991 and 1990 and \$676 million at year-end 1989. At year-end 1991, the largest of these investments consisted of \$337 million in a Mexican cookie business acquired in late 1990. Other major affiliate investments included \$208 million in a domestic franchised bottler, \$124 million in the KFC Japan joint venture and \$76 million in a Canadian snack foods operation. The level of these investments has not changed materially over the last three years.

In determining geographic area data, the results of operations of PepsiCo's centralized soft drink concentrate manufacturing facilities in Puerto Rico and Ireland have been allocated based upon concentrate sales to the respective geographic areas. Certain centralized international administrative expenses in each of the three industry segments have been allocated based upon sales volumes or number of restaurants in the respective geographic areas.

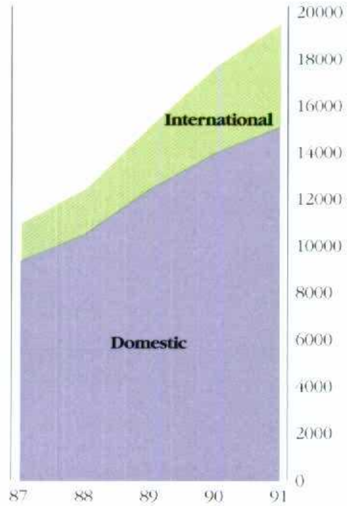
Net Sales
($ In Millions)



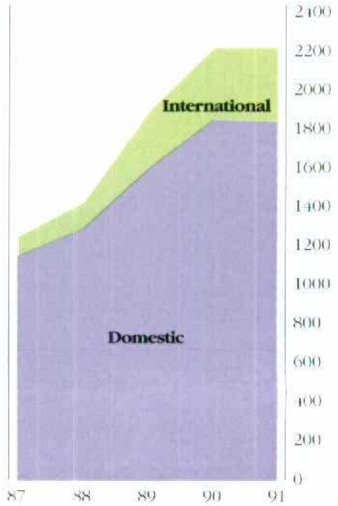
Segment Operating Profits
($ In Millions)



Net Sales
($ In Millions)



Segment Operating Profits
($ In Millions)



	Net Sales			Operating Profits(a)			Identifiable Assets		
	1991	1990	1989	**1991**	1990	1989	**1991**	1990	1989
Industry Segments:									
Soft Drinks: Domestic	**$ 5,171.5**	$ 5,034.5	$ 4,623.3	**$ 746.2**	$ 673.8	$ 577.6			
International	**1,743.7**	1,488.5	1,153.4	**117.1**	93.8	98.6			
	6,915.2	6,523.0	5,776.7	**863.3**	767.6	676.2	**$ 6,832.6**	$ 6,465.2	$ 6,198.1
Snack Foods: Domestic	**3,737.9**	3,471.5	3,211.3	**616.6**	732.3	667.8			
International	**1,827.9**	1,582.5	1,003.7	**171.0**	202.1	137.4			
	5,565.8	5,054.0	4,215.0	**787.6**	934.4	805.2	**4,114.3**	3,892.4	3,310.0
Restaurants: Domestic	**6,258.4**	5,540.9	4,684.8	**479.4**	447.2	356.5			
International	**868.5**	684.8	565.9	**96.2**	75.2	57.8			
	7,126.9	6,225.7	5,250.7	**575.6**	522.4	414.3	**4,254.2**	3,448.9	3,070.6
Total: Domestic	**15,167.8**	14,046.9	12,519.4	**1,842.2**	1,853.3	1,601.9			
International	**4,440.1**	3,755.8	2,723.0	**384.3**	371.1	293.8			
	$19,607.9	$17,802.7	$15,242.4	**$2,226.5**	$2,224.4	$1,895.7	**$15,201.1**	$13,806.5	$12,578.7
Geographic Areas:									
United States	**$15,167.8**	$14,046.9	$12,519.4	**$1,842.2**	$1,853.3	$1,601.9	**$10,777.8**	$ 9,980.7	$ 9,593.4
Europe	**1,486.0**	1,344.7	771.7	**61.8**	108.5	53.8	**2,367.3**	2,255.2	1,767.2
Canada and Mexico	**1,434.7**	1,089.2	899.0	**198.7**	164.2	117.1	**917.3**	689.5	409.5
Other	**1,519.4**	1,321.9	1,052.3	**123.8**	98.4	122.9	**1,138.7**	881.1	808.6
							15,201.1	13,806.5	12,578.7
Corporate Assets							**3,574.0**	3,336.9	2,548.0
Total	**$19,607.9**	$17,802.7	$15,242.4	**2,226.5**	2,224.4	1,895.7	**$18,775.1**	$17,143.4	$15,126.7
Interest and Other Corporate Expenses, Net(a)				**(556.2)**	(557.0)	(545.2)			
Income from Continuing Operations Before Income Taxes				**$1,670.3**	$1,667.4	$1,350.5			

	Capital Spending			Depreciation and Amortization Expense		
	1991	1990	1989	**1991**	1990	1989
Soft Drinks	**$ 425.8**	$ 334.1	$ 267.8	**$ 393.2**	$338.1	$306.3
Snack Foods	**406.0**	381.6	257.9	**253.5**	232.5	189.3
Restaurants	**648.4**	460.6	424.6	**379.6**	306.5	269.9
Corporate	**4.1**	21.9	9.2	**8.2**	6.9	6.5
	$1,484.3	$1,198.2	$ 959.5	**$1,034.5**	$884.0	$772.0

Results by Restaurant Chain:	Net Sales			Operating Profits(a)		
Pizza Hut	**$3,258.3**	$2,949.9	$2,453.5	**$314.5**	$245.9	$205.5
Taco Bell	**2,038.1**	1,745.5	1,465.9	**180.6**	149.6	109.4
KFC	**1,830.5**	1,530.3	1,331.3	**80.5**	126.9	99.4
	$7,126.9	$6,225.7	$5,250.7	**$575.6**	$522.4	$414.3

(a) **Unusual Items:** (dollars in millions, except per share data) Profits for the years presented included several unusual charges and credits, resulting in a 1991 total charge of $170.0 ($119.8 after-tax or $0.15 per share), a 1990 net credit of $35.2 ($4.2 charge after-tax or $0.01 per share) and a 1989 net credit of $4.4 ($1.8 after-tax). The unusual items were as follows:

Soft Drinks: 1990 included $10.5 in domestic charges for receivables exposures related to highly leveraged retail customers. 1989 included a $32.5 credit resulting from a decision to retain a bottling operation in Japan previously held for sale and a $12.3 reorganization charge to decentralize international operations.

Snack Foods: 1991 included $127.0 in charges consisting of a $91.4 domestic restructuring charge to streamline operations, as well as a $35.6 international restructuring charge, consisting of $23.6 to streamline operations in the United Kingdom and $12.0 to dispose of or reduce ownership in a small, unprofitable business. 1990 included $10.6 in domestic charges for receivables exposures related to highly leveraged retail customers. 1989 included a $6.6 reorganization charge to decentralize domestic operations and a $4.3 credit resulting from a decision to retain a domestic cookie production facility previously held for sale.

Restaurants: 1991 included $43.0 in charges at KFC consisting of domestic and international restructuring charges of $32.8 and $1.2, respectively, to streamline operations and a $9.0 domestic charge related to a delay in the national roll-out of the new Skinfree Crispy chicken product. 1990 included a $17.6 charge for closures of certain underperforming restaurants as follows: $9.0 at Pizza Hut, $4.0 at Taco Bell and $4.6 ($0.6 internationally) at KFC. 1990 also included Pizza Hut charges of $8.0 to consolidate domestic field operations and $2.4 to relocate international headquarters. 1989 included reorganization charges of $8.0 at KFC and $5.5 at Taco Bell to consolidate domestic field operations.

Corporate: 1990 included a $118.2 gain from an initial public stock offering by PepsiCo's KFC joint venture in Japan, an $18.0 charge for accelerated contributions to the PepsiCo Foundation and a $15.9 charge to reduce the carrying value of a Pizza Hut international joint venture investment.

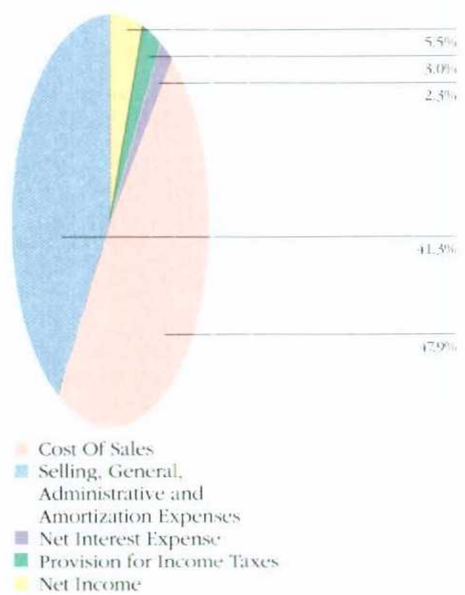
Consolidated Statement of Income

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fifty-two weeks ended December 28, 1991, December 29, 1990 and December 30, 1989

	1991	1990	1989
Net Sales	**$19,607.9**	$17,802.7	$15,242.4
Costs and Expenses, net			
Cost of sales	**9,395.5**	8,549.4	7,421.7
Selling, general and administrative expenses	**7,880.8**	7,008.6	5,887.4
Amortization of goodwill and other intangibles	**208.7**	189.1	150.4
Gain on joint venture stock offering	**–**	(118.2)	–
Interest expense	**615.9**	688.5	609.6
Interest income	**(163.3)**	(182.1)	(177.2)
	17,937.6	16,135.3	13,891.9
Income from Continuing Operations Before Income Taxes	**1,670.3**	1,667.4	1,350.5
Provision for Income Taxes	**590.1**	576.8	449.1
Income from Continuing Operations	**1,080.2**	1,090.6	901.4
Discontinued Operation Charge (net of income tax benefit of $0.3)	**–**	(13.7)	–
Net Income	**$ 1,080.2**	$ 1,076.9	$ 901.4
Income (Charge) Per Share			
Continuing operations	**$ 1.35**	$ 1.37	$ 1.13
Discontinued operation	**–**	(0.02)	–
Net Income Per Share	**$ 1.35**	$ 1.35	$ 1.13
Average shares outstanding used to calculate income (charge) per share	**802.5**	798.7	796.0

See accompanying Notes to Consolidated Financial Statements.

Allocation Of 1991 Net Sales



Management's Analysis—Results of Operations

PepsiCo's domestic and international businesses operate in markets that are highly competitive and subject to local economic influences such as inflation, commodity cost movements and tax and wage legislation. Further, many of its businesses are currently affected by recessionary pressures. PepsiCo will continue to mitigate these factors by enhancing the appeal and value of its products through brand promotion, product innovation and quality improvement and prudent pricing actions, as well as increasing the worldwide availability of its products. Costs will continue to be contained through more efficient and effective purchasing, manufacturing, distribution and administrative processes. Acquisitions also provide opportunities to expand the businesses and achieve even more efficient resource utilization. The extent to which these and other strategies continue to be successful will substantially determine future growth rates.

The Financial Accounting Standards Board has issued new accounting rules for postretirement benefits other than pensions and is expected to issue new rules for accounting for income taxes. See Notes to Consolidated Financial Statements on page 46.

Because of the significant impact of the 1989 acquisitions of several franchised bottling operations and two snack chip companies in the United Kingdom (the U.K. operations), as well as the 1989 reconsolidation of a bottling operation in Japan previously held for sale, the analysis of 1990 vs. 1989 results provides certain comparisons excluding the 1990 results of such operations (collectively, the Acquisitions) for the corresponding periods that the operations were not reflected in 1989 results.

Net Sales rose 10% in 1991, driven by additional restaurant units (constructed or acquired from franchisees, net of units closed or sold) and volume growth in the snack foods and restaurants segments. Higher sales also reflected acquisitions of domestic and international franchised bottling operations and increased international pricing that was partially offset by lower net prices in domestic restaurants. Sales rose 17% in 1990. Excluding the impact of the Acquisitions, sales increased 14%, driven by volume growth in all three segments and additional restaurant units, and aided by higher prices. International sales represented 23%, 21% and 18% of total sales in 1991, 1990 and 1989, respectively, reflecting double-digit growth in all three industry segments, with the acquisition of the U.K. operations also contributing to the 1990 increase. The trend of an increasing international component of sales and operating profits is expected to continue. Management's Analysis of the results of each industry segment is presented in the text beginning on pages 12, 21 and 28.

Cost of sales as a percentage of net sales was 47.9%, 48.0% and 48.7% in 1991, 1990 and 1989, respectively. In 1991, the impact in soft drinks of higher concentrate pricing and lower domestic ingredient costs was largely offset in snack foods by a higher rate of manufacturing cost increases than international price advances. The 1990 decrease principally reflected higher pricing and lower ingredient costs in domestic soft drinks and snack foods.

Selling, general and administrative expenses rose 12% in 1991 and 19% in 1990. Unusual items (see Note to Consolidated Financial Statements on page 34) accounted for one point of the growth in both years. Higher sales volumes, increased marketing costs and additional restaurant units led the increase in both years, with the 1990 growth also due to additional operating expenses of the Acquisitions.

Amortization of goodwill and other intangibles rose in 1991 and 1990 due to acquisition activity. A portion of the amortization expense is deductible for income tax purposes, and the after-tax expense amounts per share were $0.22, $0.20 and $0.16 in 1991, 1990 and 1989, respectively.

Gain on joint venture stock offering of $118.2 million relates to the 1990 initial public offering (IPO) of shares of PepsiCo's KFC joint venture in Japan (KFC-J). See Note to Consolidated Financial Statements on page 43.

Interest expense decreased 11% in 1991 but grew 13% in 1990. The decrease in 1991 reflected lower average interest rates, partially offset by higher average borrowings. The increase in 1990 reflected higher average borrowings to finance the Acquisitions, partially offset by a decline in average interest rates.

Interest income decreased 10% in 1991 but grew 3% in 1990. In 1991, lower average interest rates were partially offset by higher average balances of offshore short-term investment portfolios, but in 1990, higher portfolio balances exceeded the impact of lower rates.

Income from Continuing Operations Before Income Taxes was even with 1990 and posted 23% growth over 1989. Excluding unusual items, the KFC-J IPO gain and the impact of the Acquisitions (with related financing costs), the increases were 13% and 26% in 1991 and 1990, respectively. The growth in both years reflected operating profit advances driven by higher volumes and additional restaurant units. Operating profits grew at a slower rate in 1991 due largely to a profit decline in snack foods, but this impact was partially offset by lower net interest expense. Excluding unusual items, international operating profits represented 18%, 16% and 14% of combined segment operating profits in 1991, 1990 and 1989, respectively, reflecting base business growth, with the increase over 1989 also due to the acquisition of the U.K. operations.

Provision for Income Taxes as a percentage of income from continuing operations was 35.3%, 34.6% and 33.3% in 1991, 1990 and 1989, respectively. A current tax benefit was not available on substantially all of the international unusual charges in 1991 and 1990, and the KFC-J IPO gain had an unusually high tax rate. See Note to Consolidated Financial Statements on page 43. Excluding the impact of these items, the effective rates were 34.6% in 1991 and 32.7% in 1990, with the increase over 1990 due primarily to higher taxes on foreign income.

Income and Income Per Share from Continuing Operations in 1991 declined 1% to $1.08 billion and $1.35, respectively, but grew 21% in 1990. Unusual charges in 1991 totaled $119.8 million after-tax or $0.15 per share, and the net impact in 1990 of unusual charges and the KFC-J IPO gain was a $4.2 million charge after-tax or $0.01 per share. Excluding these items, income and income per share from continuing operations rose 10% and 9% in 1991, and grew 21% and 22% in 1990, respectively.

Consolidated Balance Sheet

(in millions except per share amount)
PepsiCo, Inc. and Subsidiaries
December 28, 1991 and December 29, 1990

	1991	1990
ASSETS		
Current Assets		
Cash and cash equivalents	$ 186.7	$ 170.8
Short-term investments, at cost which approximates market	1,849.3	1,644.9
	2,036.0	1,815.7
Accounts and notes receivable, less allowance: $97.5 in 1991 and $90.8 in 1990	1,481.7	1,414.7
Inventories	661.5	585.8
Prepaid expenses and other current assets	386.9	265.2
Total Current Assets	4,566.1	4,081.4
Investments in Affiliates and Other Assets	1,681.9	1,505.9
Property, Plant and Equipment, net	6,594.7	5,710.9
Goodwill and Other Intangibles, net	5,932.4	5,845.2
Total Assets	$18,775.1	$17,143.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 228.2	$ 1,626.5
Accounts payable	1,196.6	1,116.3
Income taxes payable	492.4	443.7
Other current liabilities	1,804.9	1,584.0
Total Current Liabilities	3,722.1	4,770.5
Long-term Debt	7,806.2	5,600.1
Nonrecourse Obligation	–	299.5
Other Liabilities and Deferred Credits	631.3	626.3
Deferred Income Taxes	1,070.1	942.8
Shareholders' Equity		
Capital stock, par value 1⅔¢ per share: authorized 1,800.0 shares, issued 863.1 shares	14.4	14.4
Capital in excess of par value	476.6	365.0
Retained earnings	5,470.0	4,753.0
Currency translation adjustment	330.3	383.2
	6,291.3	5,515.6
Less: Treasury stock, at cost: 74.0 shares in 1991, 74.7 shares in 1990	(745.9)	(611.4)
Total Shareholders' Equity	5,545.4	4,904.2
Total Liabilities and Shareholders' Equity	$18,775.1	$17,143.4

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis—Financial Condition

PepsiCo's principal objective is to increase the value of its shareholders' investment through integrated operating, investing and financing strategies that maximize cash returns on investments and optimize the cost of capital. The cost of capital is a weighting of cost of debt and cost of equity, with the latter representing a measure of expected return to investors in PepsiCo's stock. PepsiCo estimates its cost of capital to be approximately 11%. PepsiCo's strong financial condition provides continued access to capital markets throughout the world.

Assets increased $1.6 billion or 10% over 1990. This increase reflected purchases of property, plant and equipment (PP&E), acquisition and affiliate investment activity and growth in the base businesses.

Short-term investments, substantially all of which consist of high-grade marketable securities portfolios held offshore, rose $204 million or 12% over 1990. This increase reflected higher portfolios from operations or to support financing of certain international businesses. The portfolio in Puerto Rico represents the significant majority of the investments, reflecting the strong operating cash flows of the centralized soft drink concentrate manufacturing facilities that operate there under a tax incentive grant. The grant provides that the portfolio funds may be remitted to the U.S. without any tax. In 1991, PepsiCo liquidated $500 million of the Puerto Rico portfolio, with a portion used to refinance an international investment and the remainder remitted to the U.S. PepsiCo continually reassesses its alternatives to redeploy these and other offshore portfolios, considering other investment opportunities, tax consequences and overall financing strategies.

The $122 million or 46% increase in prepaid expenses and other current assets over 1990 was due principally to increased prefunding of employee benefit expenses and higher prepaid media advertising costs.

PepsiCo's purchases of PP&E totaled $1.5 billion in 1991 and $1.2 billion in 1990. The purchases were led in both years by new unit additions in the restaurants segment. The 1991 growth also reflected increased investments in international soft drinks and additional production capacity in domestic snack foods.

Liabilities rose $991 million or 8% over 1990, reflecting a $508 million net increase in total debt (including the nonrecourse obligation) to fund investing and other financing activities. The growth also reflected a $221 million or 14% increase in other current liabilities over 1990, due primarily to restructuring charges accrued in 1991 and higher accrued interest expense.

PepsiCo's unused credit facilities with lending institutions, which exist largely to support the issuances of short-term borrowings, were $3.5 billion at year-end 1991 and 1990. This amount of short-term borrowings was classified as long-term at year-end 1991 and 1990, reflecting PepsiCo's intent and ability, through the existence of the credit facilities, to refinance these borrowings.

Financial Leverage is utilized by PepsiCo in managing its capital structure to optimize the overall cost of capital, considering the favorable tax treatment of debt, while maintaining operating and financial flexibility.

PepsiCo measures leverage on a net basis, which takes into account its large offshore short-term investment portfolios. These portfolios are managed as part of PepsiCo's overall financing strategy and are not required to support day-to-day operations. Therefore, PepsiCo believes its net debt position, which reflects the pro forma remittance of the portfolios, net of related taxes, as a reduction of total debt (excluding the nonrecourse obligation outstanding at year-end 1990), is the most meaningful historical cost measure of financial leverage used in its business. PepsiCo's ratio of net debt to net capital employed (defined as net debt, other liabilities and deferred credits, deferred income taxes and shareholders' equity) was 47% at both year-end 1991 and 1990.

PepsiCo also measures financial leverage on a market value basis. Management believes that market leverage (defined as net debt as a percent of net debt plus the market value of equity, based on the year-end stock price) better measures PepsiCo's financial leverage from the perspective of investors in its securities, as it reflects the portion of the current value of PepsiCo that is financed with debt. Unlike historical cost measures, the market value of equity is based primarily on the expected future cash flows that will both support debt and provide returns to shareholders. The market net debt ratio was 19% and 22% at year-end 1991 and 1990, respectively. The decline in the ratio was due to a 31% increase in PepsiCo's stock price, partially offset by a 12% increase in net debt. PepsiCo has established a target range for its market net debt ratio of 20-25%. PepsiCo believes that it can safely exceed this range on a short-term basis to take advantage of strategic acquisition opportunities.

Because of its strong cash generating capability, PepsiCo believes that its current leverage level does not significantly affect its overall cost of debt or reduce its flexibility to invest in the business.

PepsiCo's negative operating working capital position, which principally reflects the cash sales nature of its restaurant operations, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative $777 million and $708 million at year-end 1991 and 1990, respectively.

Shareholders' Equity rose $641 million or 13% over 1990, reflecting 1991 net income of $1.08 billion partially offset by dividends declared of $363 million. The decrease in the currency translation adjustment, which relates principally to net assets in the U.K., reflected a stronger U.S. dollar against the pound sterling. Issuances of treasury stock for acquisitions, which drove the increase in capital in excess of par value, were more than offset by purchases of stock for treasury on the open market.

Based on income from continuing operations, PepsiCo's return on average shareholders' equity was 20.7% in 1991 compared to 24.8% in 1990. Excluding the impact of 1991 and 1990 unusual charges and the 1990 gain on joint venture stock offering, the return on average shareholders' equity was 22.7% in 1991 and 24.9% in 1990.

Consolidated Statement of Cash Flows

(in millions)
PepsiCo, Inc. and Subsidiaries
Fifty-two weeks ended December 28, 1991, December 29, 1990 and December 30, 1989

	1991	1990	1989
Cash Flows from Continuing Operations:			
Income from continuing operations	**$1,080.2**	$1,090.6	$ 901.4
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Gain on joint venture stock offering	**–**	(118.2)	–
Depreciation and amortization	**1,034.5**	884.0	772.0
Deferred income taxes	**122.6**	106.1	71.2
Other noncash charges and credits, net	**227.2**	120.3	128.4
Changes in operating working capital, excluding effect of acquisitions:			
Accounts and notes receivable	**(55.9)**	(124.8)	(149.9)
Inventories	**(54.8)**	(20.9)	(50.1)
Prepaid expenses and other current assets	**(100.2)**	(61.6)	6.5
Accounts payable	**57.8**	25.4	134.9
Income taxes payable	**(3.4)**	136.3	80.9
Other current liabilities	**122.3**	72.8	(9.4)
Net change in operating working capital	**(34.2)**	27.2	12.9
Net Cash Provided by Continuing Operations	**2,430.3**	2,110.0	1,885.9
Cash Flows–Investing Activities:			
Acquisitions and investments in affiliates	**(640.9)**	(630.6)	(3,296.6)
Purchases of property, plant and equipment	**(1,457.8)**	(1,180.1)	(943.8)
Proceeds from joint venture stock offering	**–**	129.6	–
Proceeds from sales of property, plant and equipment	**69.6**	45.3	69.7
Short-term investments, by original maturity:			
More than three months–purchases	**(1,849.2)**	(2,093.2)	(2,131.1)
More than three months–sales	**1,873.2**	2,139.4	1,476.4
Three months or less, net	**(164.9)**	(228.0)	667.0
Other, net	**(105.8)**	(119.7)	(97.9)
Net Cash Used for Investing Activities	**(2,275.8)**	(1,937.3)	(4,256.3)
Cash Flows–Financing Activities:			
Proceeds from issuances of long-term debt	**2,799.6**	777.3	71.7
Payments of long-term debt	**(1,048.2)**	(298.0)	(405.4)
Retirement of nonrecourse obligation	**(300.3)**	–	–
Short-term borrowings, by original maturity:			
More than three months–proceeds	**2,551.9**	4,041.9	1,109.5
More than three months–payments	**(3,097.4)**	(2,647.4)	(476.2)
Three months or less, net	**(467.1)**	(1,480.7)	2,292.2
Cash dividends paid	**(343.2)**	(293.9)	(241.9)
Purchases of treasury stock	**(195.2)**	(147.7)	–
Other, net	**(31.2)**	(28.6)	(28.9)
Net Cash Provided by (Used for) Financing Activities	**(131.1)**	(77.1)	2,321.0
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(7.5)**	(1.0)	(17.1)
Net Increase (Decrease) in Cash and Cash Equivalents	**15.9**	94.6	(66.5)
Cash and Cash Equivalents–Beginning of Year	**170.8**	76.2	142.7
Cash and Cash Equivalents–End of Year	**$ 186.7**	$ 170.8	$ 76.2

	1991	1990	1989
Supplemental Cash Flow Information:			
Cash Flow Data			
Interest paid	**$ 490.1**	656.9	591.1
Income taxes paid	**$ 385.9**	375.0	239.7
Schedule of Noncash Investing and Financing Activities			
Liabilities assumed in connection with acquisitions	**$ 70.9**	126.7	342.9
Issuance of treasury stock and debt for acquisitions	**$ 162.7**	105.1	103.9
Issuance of treasury stock for compensation awards and conversion of debentures	**$ 14.7**	13.5	9.3
Additions of capital leases	**$ 26.5**	18.1	15.7

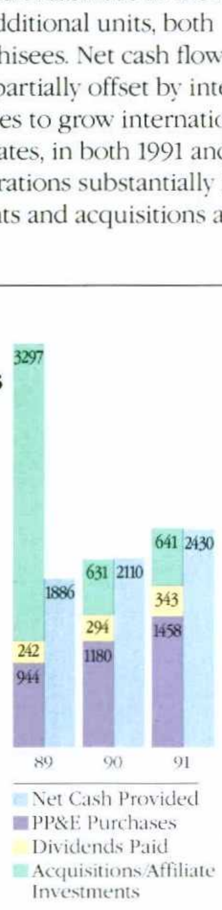
See accompanying Notes to Consolidated Financial Statements.

Management's Analysis—Cash Flows

Cash flow activity in 1991 reflected strong cash flows from continuing operations of $2.4 billion and net proceeds of $439 million from activity in total debt (including the nonrecourse obligation). Major funding needs included purchases of property, plant and equipment (PP&E) of $1.5 billion, acquisitions and investments in affiliates of $641 million and dividends of $343 million.

One of PepsiCo's most significant financial strengths is its internal cash generation capability. In 1991, the snack foods and soft drinks segments provided particularly strong cash flows after PP&E purchases and acquisitions. A cash use in the restaurants segment reflected funding of additional units, both constructed and acquired from franchisees. Net cash flows from PepsiCo's domestic businesses were partially offset by international uses of cash, reflecting strategies to grow international operations. As the chart below illustrates, in both 1991 and 1990, net cash provided by continuing operations substantially funded purchases of PP&E, dividend payments and acquisitions and affiliate investments.

Net Cash Provided by Continuing Operations vs. PP&E Purchases, Dividends Paid and Acquisitions/Affiliate Investments
($ In Millions)



Net Cash Provided by Continuing Operations in 1991 rose $320 million or 15% over 1990, and in 1990 grew $224 million or 12% over 1989. The joint venture stock offering gain in 1990 relates to the initial public offering of a KFC joint venture in Japan. See Note to Consolidated Financial Statements on page 43. The comparison of the 1991 net change in operating working capital to 1990 reflects the timing of income tax payments and higher prefunded employee benefit expenses, partially offset by modest growth in accounts receivable due to slower volume growth in domestic bottling operations as well as the impact of accrued restructuring charges. The 1990 to 1989 comparison of operating working capital changes was also affected by several increases and decreases in various accounts, the net of which was not significant. The increases in depreciation and amortization noncash charges of $151 million in 1991 and $112 million in 1990 reflected increased PP&E investment as well as goodwill and other intangibles and PP&E associated with recent acquisitions. The other net noncash charges and credits reflect increased accruals of noncurrent liabilities in 1991.

Investing Activities over the past three years reflected strategic spending in all three industry segments through acquisitions, investments in affiliates and purchases of PP&E. Acquisition and affiliate investment activity in 1991 included cash and noncash (primarily treasury stock issuance) transactions of $641 million and $163 million, respectively, and was led by acquisitions of franchised domestic restaurant operations. The number of probable transactions as of February 1992 indicates that acquisitions and affiliate investments in 1992 will likely exceed the total 1991 activity. PepsiCo continues to seek opportunities to strengthen its position in its domestic and international industry segments through such strategic acquisition activity. Purchases of PP&E are expected to increase to approximately $1.7 billion in 1992 from $1.5 billion in 1991, with almost half of the 1992 amount targeted for the restaurants segment and the balance evenly divided between the soft drinks and snack foods segments. The 1992 planned spending is led by new restaurant units, productive capacity expansion in snack foods and soft drinks as well as additional vending equipment in soft drinks. Approximately 30% of the planned 1992 PP&E spending relates to international businesses, about the same as 1991 and 1990.

Financing Activities resulted in an increase in net cash used of $54 million over 1990, principally reflecting higher payments of dividends and purchases of treasury stock, partially offset by increased net proceeds from total debt activity.

During 1991, PepsiCo issued $3.9 billion of notes and used the proceeds to refinance short-term borrowings, a portion of which funded investing and other financing activities including retirement of the nonrecourse obligation. Substantially all of the issuances were under a $2.5 billion shelf registration statement filed with the Securities and Exchange Commission in March 1991 and a $1.5 billion shelf registration statement filed in 1990. In December 1991, PepsiCo filed a shelf registration statement covering potential debt issuances of $3.3 billion, all of which was available for future issuances as of February 1992. As a result of the refinancings and interest rate swap transactions, at year-end 1991 the majority of PepsiCo's debt was effectively at fixed interest rates as compared to year-end 1990 when the majority was effectively at variable rates.

Cash dividends declared were a record $363 million in 1991 and $302 million in 1990. PepsiCo targets a dividend payout of approximately one-third of the prior year's income from continuing operations, thus retaining sufficient earnings to enhance productive capability and provide financial resources for growth opportunities.

Share repurchase decisions are evaluated considering the target capital structure and other investment opportunities. In 1991, PepsiCo repurchased 6.4 million shares at a cost of $195 million. Including these repurchases, 20.8 million shares have been purchased under the 45 million share repurchase authority granted by PepsiCo's Board of Directors in 1987.

Consolidated Statement of Shareholders' Equity

(shares in thousands, dollars in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fifty-two weeks ended December 28, 1991, December 29, 1990 and December 30, 1989

	Capital Stock							
	Issued		Treasury		Capital in Excess	Retained	Currency Translation	
	Shares	Amount	Shares	Amount	of Par Value	Earnings	Adjustment	Total
Shareholders' Equity, December 31, 1988	863,083	$ 14.4	(74,649)	$ (509.7)	$ 302.6	$ 3,329.7	$ 24.0	$ 3,161.0
1989 Net income						901.4		901.4
Cash dividends declared (per share-$0.32)						(252.7)		(252.7)
Currency translation adjustment							42.2	42.2
Shares issued in connection with an acquisition			1,266	8.6	17.9			26.5
Payment of compensation awards and exercise of stock options			901	6.2	2.6			8.8
Conversion of debentures			456	3.1	0.8			3.9
Shareholders' Equity, December 30, 1989	863,083	$ 14.4	(72,026)	$ (491.8)	$ 323.9	$ 3,978.4	$ 66.2	$ 3,891.1
1990 Net income						1,076.9		1,076.9
Cash dividends declared (per share-$0.38)						(302.3)		(302.3)
Currency translation adjustment							317.0	317.0
Purchase of treasury stock			(6,310)	(147.7)				(147.7)
Shares issued in connection with acquisitions			2,013	16.3	30.1			46.4
Payment of compensation awards and exercise of stock options			1,072	7.8	9.1			16.9
Conversion of debentures			549	3.9	1.7			5.6
Shares reissued to Employee Stock Ownership Plan			8	0.1	0.2			0.3
Shareholders' Equity, December 29, 1990	863,083	$ 14.4	(74,694)	$ (611.4)	$ 365.0	$ 4,753.0	$ 383.2	$ 4,904.2
1991 Net income						**1,080.2**		**1,080.2**
Cash dividends declared (per share-$0.46)						**(363.2)**		**(363.2)**
Currency translation adjustment							**(52.9)**	**(52.9)**
Purchase of treasury stock			**(6,392)**	**(195.2)**				**(195.2)**
Shares issued in connection with acquisitions			**5,613**	**46.7**	**95.0**			**141.7**
Payment of compensation awards and exercise of stock options			**1,446**	**13.6**	**16.4**			**30.0**
Conversion of debentures			**44**	**0.4**	**0.2**			**0.6**
Shares reissued to Employee Stock Ownership Plan			**1**					
Shareholders' Equity, December 28, 1991	**863,083**	**$14.4**	**(73,982)**	**$(745.9)**	**$476.6**	**$5,470.0**	**$330.3**	**$5,545.4**

See accompanying Notes to Consolidated Financial Statements.

(tabular dollars in millions except per share amounts)

Summary of Significant Accounting Policies

Principles of Consolidation. The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated. Investments in affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method, and the equity in net income is included in the Consolidated Statement of Income under the caption "Selling, general and administrative expenses." Certain reclassifications were made to 1990 and 1989 amounts to conform with the 1991 presentation.

Goodwill and Other Intangibles. Goodwill and other intangibles represent the excess of the purchase price over the fair market value of net tangible assets of businesses acquired, with the largest portion attributable to the value of Pepsi-Cola franchise rights reacquired in the acquisitions of franchised bottling operations. Goodwill and other intangibles are amortized on a straight-line basis over appropriate periods generally ranging from 20 to 40 years. Accumulated amortization was $757 million and $548 million at year-end 1991 and 1990, respectively.

Marketing Costs. Marketing costs are reported in the Consolidated Statement of Income under the caption "Selling, general and administrative expenses" and include costs of advertising, marketing and promotional programs. Promotional discounts are expensed as incurred, and other marketing costs not deferred are charged to expense ratably in relation to sales over the year in which incurred. Marketing costs deferred consist of media and personal service advertising prepayments, materials in inventory and production costs of future media advertising; these assets are expensed in the year used.

Classification of Restaurant Operating Expenses. Operating expenses incurred at the restaurant unit level consist primarily of food and related packaging costs, labor associated with food preparation and customer service, and overhead expenses. For purposes of the Consolidated Statement of Income, food and packaging costs as well as all labor-related expenses are classified as "Cost of sales," and all other unit level expenses are classified as "Selling, general and administrative expenses."

Cash Equivalents. Cash equivalents are comprised of funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, primarily held offshore, are classified as short-term investments.

Net Income Per Share. Net income per share is computed by dividing net income by the weighted average number of shares and share equivalents outstanding during each year.

Research and Development Expenses. Research and development expenses, which are expensed as incurred, were $99 million, $101 million and $91 million in 1991, 1990 and 1989, respectively.

Business Segments

Information regarding industry segments and geographic areas of operations is provided on pages 34 and 35.

Acquisitions and Investments in Affiliates

During 1991, acquisition and affiliate investment activity, led by acquisitions of franchised domestic restaurant operations, aggregated $804 million, comprised of $641 million in cash, $142 million in PepsiCo Capital Stock and $21 million in notes. All of the activity was within PepsiCo's three industry segments.

During 1990, acquisition and affiliate investment activity aggregated $736 million, principally for cash, and included an equity interest in a Mexican cookie business as well as acquisitions of franchised bottling and restaurant operations.

During 1989, acquisitions aggregated $3.4 billion, principally for cash, and included the franchised domestic bottling operations of General Cinema Corporation (GC Beverage), acquired in March 1989 for $1.77 billion, and two snack chip companies in the United Kingdom, Smiths Crisps Limited and Walkers Crisps Holdings Limited (the U.K. operations), acquired in July 1989 for $1.34 billion. The remaining activity consisted primarily of acquisitions of franchised domestic bottling and restaurant operations.

The acquisitions have been accounted for by the purchase method; accordingly, their results are included in the Consolidated Financial Statements from their respective dates of acquisition.

Assuming the acquisitions of GC Beverage and the U.K. operations had occurred at the beginning of 1989, the unaudited pro forma combined 1989 net sales, net income and net income per share of PepsiCo and these acquisitions were computed to be $15.6 billion, $859 million and $1.08, respectively. The aggregate impact of acquisitions in 1991 and 1990 and all other acquisitions in 1989 was not material to PepsiCo's net sales, net income or net income per share; accordingly, no related pro forma information is provided. The pro forma information does not necessarily represent what the actual consolidated results would have been for 1989.

Joint Venture Stock Offering

In 1990, PepsiCo recorded an unusual gain of $118.2 million ($53.0 after-tax or $0.07 per share) related to an initial public offering (IPO) to Japanese investors by PepsiCo's KFC joint venture in Japan (KFC-J). KFC-J's principal shareholders are Mitsubishi Corporation and PepsiCo. The IPO consisted of 6.5 million shares of stock in KFC-J. Each principal shareholder sold 2.25 million shares, and KFC-J sold an additional two million new shares. PepsiCo's sale of 2.25 million shares generated pretax cash proceeds of $129.6 million.

The gain from the IPO consisted of a $94.3 million gain ($42.3 after-tax) from PepsiCo's sale of the 2.25 million shares and a $23.9 million ($10.7 after-tax) noncash equity gain from the sale of the two million new shares by KFC-J. As a result of these transactions, each principal shareholder's interest declined from 48.7% to 30.5%. The effective tax rate on the gain was 55.2%, reflecting the relatively low U.S. tax basis of PepsiCo's investment in KFC-J compared to its book value, which included nondeductible goodwill and other intangibles.

Discontinued Operation Charge

The discontinued operation charge of $14.0 million ($13.7 after-tax or $0.02 per share) represents additional amounts provided in 1990 for various pending lawsuits and claims relating to a business sold in a prior year. Substantially all of the charge is a capital loss for which PepsiCo has derived no tax benefit.

Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out methods) or net realizable value. Inventories computed on the last-in, first-out (LIFO) method comprised 49% and 54% of inventories at year-end 1991 and 1990, respectively.

	1991	1990
Raw materials, supplies and in-process	**$350.7**	$315.4
Finished goods	**324.2**	285.3
Total (approximates current cost)	**674.9**	600.7
Excess of current cost over LIFO cost	**(13.4)**	(14.9)
	$661.5	$585.8

PepsiCo hedges certain of its domestic raw material purchases through commodity futures contracts to reduce its exposure to market price fluctuations. Gains and losses on these contracts are included in the cost of the raw materials.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the assets. Depreciation expense in 1991, 1990 and 1989 was $800 million, $686 million and $610 million, respectively.

	1991	1990
Land	**$ 880.1**	$ 785.4
Buildings and improvements	**3,707.1**	3,173.7
Capital leases, primarily buildings	**288.2**	265.4
Machinery and equipment	**5,626.3**	4,753.2
	10,501.7	8,977.7
Accumulated depreciation	**(3,907.0)**	(3,266.8)
	$ 6,594.7	$ 5,710.9

Short-term Borrowings and Long-term Debt

	1991	1990
Short-term Borrowings		
Commercial paper (6.1% and 7.9% weighted average interest rate at year-end 1991 and 1990, respectively)	**$ 1,616.7**	$ 3,168.8
Current maturities of long-term debt issuances	**619.2**	1,085.0
Notes **(A)**	**1,100.0**	624.8
Other borrowings	**342.3**	247.9
Amount reclassified to long-term debt **(B)**	**(3,450.0)**	(3,500.0)
	$ 228.2	$ 1,626.5

	1991	1990
Long-term Debt		
Short-term borrowings, reclassified **(B)**	**$3,450.0**	$ 3,500.0
Notes due 1992 through 1998 (7.1% and 7.9% weighted average interest rate at year-end 1991 and 1990, respectively) **(A)**	**3,381.0**	1,513.7
Zero coupon notes, $1.1 billion due 1992-2012 (14.1% and 14.0% semi-annual weighted average yield to maturity at year-end 1991 and 1990, respectively)	**365.6**	348.1
Swiss franc perpetual Foreign Interest Payment bonds **(C)**	**210.7**	209.9
European Currency Units 7⅜% notes due 1992 **(D)**	**134.2**	135.2
Pound sterling 9⅛% notes due 1993 **(D)**	**112.5**	115.5
Swiss franc 5¼% bearer bonds due 1995 **(D)**	**99.5**	104.7
Italian lire 10½% notes due 1991 **(D)**	**–**	88.8
Swiss franc 7⅛% notes due 1994 **(D)**	**74.1**	–
Canadian dollar 8¾% notes due 1991 **(A)**	**–**	64.6
Capital lease obligations (See Note on page 45.)	**213.3**	193.8
Other, due 1992-2020 (7.7% and 8.9% weighted average interest rate at year-end 1991 and 1990, respectively)	**384.5**	410.8
	8,425.4	6,685.1
Less current maturities of long-term debt issuances	**(619.2)**	(1,085.0)
Total long-term debt	**$7,806.2**	$ 5,600.1

Long-term debt is carried net of any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which is presently significant to PepsiCo.

The annual maturities of long-term debt through 1996, excluding capital lease obligations and the reclassified short-term borrowings, are: 1992-$600 million, 1993-$1.05 billion, 1994-$883 million, 1995-$400 million and 1996-$834 million.

(A) PepsiCo has entered into interest rate swap agreements to effectively convert $865 million and $679 million of fixed interest rate debt issuances to variable rate debt with a weighted average interest rate of 4.6% and 7.8% at year-end 1991 and 1990, respectively, as well as effectively convert $164 million of variable interest rate debt to fixed rate debt with an interest rate of 7.8% at year-end 1991. The differential to be paid or received on interest rate swaps is accrued as interest rates change and is charged or credited to interest expense over the life of the agreements.

(B) At year-end 1991 and 1990, $3.5 billion of short-term borrowings were classified as long-term, reflecting PepsiCo's intent and ability to refinance these borrowings on a long-term basis, through either long-term debt issuances or rollover of existing short-term borrowings. At year-end 1991 and 1990, PepsiCo had revolving credit agreements covering potential borrowings aggregating $3.5 billion, with the current agreements expiring 1995 through 1997. These unused credit facilities provide the ability to refinance short-term borrowings.

(C) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 is 7½% through 1996. The interest payments are made in U.S. dollars at a fixed contractual exchange rate. The bonds have no stated maturity date. At the end of each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can, and intends to, limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying value in both years.

(D) PepsiCo has entered into currency exchange agreements to hedge its foreign currency exposure on these issues of non-U.S. dollar denominated debt. At year-end 1991, the carrying value of this debt aggregated $420 million and the net receivable under related currency exchange agreements aggregated $77 million, resulting in a net effective U.S. dollar liability of $343 million with a weighted average fixed interest rate of 7.3%. At year-end 1990, the aggregate carrying values of the debt and the receivable under related currency exchange agreements were $444 million and $101 million, respectively, resulting in a net effective U.S. dollar liability of $343 million consisting of $294 million with a weighted average variable interest rate of 7.5% and $49 million with a weighted average fixed interest rate of 9.9%. The gross receivables and payables under the currency exchange agreements are reflected in the Consolidated Balance Sheet under the appropriate current and noncurrent asset and liability captions. Changes in the value of a currency exchange agreement resulting from exchange rate movements are offset by changes in the carrying value of the related non-U.S. dollar denominated debt, as both values are based on current exchange rates.

PepsiCo has entered into several interest rate swap agreements, which are effective in early 1992 and terminate in twelve to sixteen months, to effectively fix the interest rates on $1.1 billion of commercial paper borrowings.

Except for these commercial paper swaps, the maturity dates of interest rate swaps and currency exchange agreements correspond with those of the related debt instruments. The counterparties to PepsiCo's interest rate swaps and currency exchange agreements consist of a diversified group of financial institutions. PepsiCo is exposed to credit risk to the extent of nonperformance by these counterparties; however, PepsiCo regularly monitors its positions and the credit ratings of these counterparties and considers the risk of default to be remote. Additionally, due to the frequency of interest payments and receipts, PepsiCo's credit risk related to interest rate swaps is not significant.

Nonrecourse Obligation

In 1987, PepsiCo received net proceeds of $299 million under a nonrecourse obligation agreement whereby this principal amount and related interest were payable solely from future royalty payments from certain independent franchisees of one of PepsiCo's restaurant chains for a period not to exceed 10 years. The variable interest rate, based on a commercial paper rate, was 8.4% at year-end 1990. The agreement provided that principal repayments during the first five years could be readvanced. As PepsiCo had intended to elect this provision, the entire obligation had been classified as noncurrent in 1990. Because of the increased costs of the arrangement, PepsiCo decided to prepay the entire principal in May 1991.

Leases

PepsiCo has noncancelable commitments under both capital and operating leases, primarily for restaurant units. Certain of these units have been subleased to restaurant franchisees. Commitments on capital and operating leases expire at various dates through 2032.

Future minimum commitments and sublease receivables under noncancelable leases are as follows:

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1992	$ 41.8	$ 204.6	$ 4.5	$ 8.6
1993	39.0	179.3	4.4	8.2
1994	37.5	156.5	4.2	7.6
1995	34.2	144.9	4.0	6.9
1996	30.0	127.0	3.7	6.1
Later years	182.5	650.4	14.4	25.5
	$365.0	$1,462.7	$35.2	$62.9

At year-end 1991, the present value of minimum payments under capital leases was $213 million, after deducting $2 million for estimated executory costs (taxes, maintenance and insurance) and $150 million representing imputed interest. The present value of minimum receivables under direct financing subleases was $21 million, after deducting $14 million of unearned interest income.

Total rental expense and income and the contingent portions of these totals were as follows:

	1991	1990	1989
Total rental expense	**$323.2**	272.7	236.9
Contingent portion of expense	**$ 22.3**	21.4	20.8
Total rental income	**$ 13.0**	10.5	14.2
Contingent portion of income	**$ 4.8**	4.9	4.5

Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.

Income Taxes

Detail of the provision for income taxes on income from continuing operations:

		1991	1990	1989
Current–	Federal	**$315.5**	$301.5	$221.7
	Foreign	**125.0**	126.6	89.5
	State	**51.5**	62.3	38.0
		492.0	490.4	349.2
Deferred–	Federal	**63.5**	66.0	95.7
	Foreign	**25.2**	12.5	1.2
	State	**9.4**	7.9	3.0
		98.1	86.4	99.9
		$590.1	$576.8	$449.1

The deferred provision, which results principally from differences in the timing of expense recognition for financial reporting and tax purposes, included amounts related to depreciation of property, plant and equipment of $56.2 million, $40.6 million and $36.3 million and amortization of intangibles of $49.0 million, $46.0 million and $47.3 million in 1991, 1990 and 1989, respectively. Also included was $23.3 million in 1991 related to increased prefunding of employee benefit expenses. In 1991, the deferred provision was reduced by $41.7 million related to restructuring charges.

U.S. and foreign income from continuing operations before income taxes:

	1991	1990	1989
U.S.	**$1,054.3**	$ 915.5	$ 843.4
Foreign	**616.0**	751.9	507.1
	$1,670.3	$1,667.4	$1,350.5

PepsiCo operates centralized soft drink concentrate manufacturing facilities in Puerto Rico and Ireland under long-term tax incentives. The foreign amount in the above table includes approximately 50% (consistent with the allocation for tax purposes) of the income from sales of concentrate manufactured in Puerto Rico.

Deferred taxes were not provided on unremitted earnings of foreign subsidiaries that are intended to be indefinitely reinvested. These unremitted earnings aggregated approximately $945 million at year-end 1991, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the Puerto Rico tax incentive grant.

Reconciliation of the U.S. federal statutory tax rate to PepsiCo's effective tax rate on income from continuing operations, based on the dollar impact of these major components on the provision for income taxes:

	1991	1990	1989
U.S. federal statutory tax rate	**34.0%**	34.0%	34.0%
State income tax, net of federal tax benefit	**2.4**	1.9	2.0
Effect of lower taxes on foreign income (including Puerto Rico and Ireland)	**(2.3)**	(3.9)	(3.9)
Nondeductible amortization of domestic goodwill and other intangibles	**1.8**	1.6	2.0
Tax basis difference related to joint venture stock offering	**–**	1.6	–
Other, net	**(0.6)**	(0.6)	(0.8)
Effective tax rate	**35.3%**	34.6%	33.3%

Deferred taxes reported in the Consolidated Balance Sheet include $174.0 million and $200.9 million in 1991 and 1990, respectively, related to Safe Harbor Leases (the Leases) in which PepsiCo invested in 1981 and 1982. These amounts are based on the current U.S. federal statutory tax rate. These transactions, which do not impact the provision for income taxes, decrease income taxes payable over the initial years of the Leases and increase them over the later years. Taxes payable related to the Leases are estimated to be $30.1 million over the next five years.

PepsiCo has not adopted Statement No. 96 (SFAS 96) "Accounting for Income Taxes" that was issued in 1987, as the Financial Accounting Standards Board (the FASB) has been deliberating revisions and now anticipates issuing a new standard in 1992 that supersedes SFAS 96. Based on an Exposure Draft issued by the FASB in June of 1991, the new standard is expected to retain the basic principles of SFAS 96 to account for deferred income taxes under the liability method, as well as permit adoption on either a prospective or retroactive basis. It is probable that PepsiCo will account for the adoption on a prospective basis as a change in accounting principle. While simplifying certain provisions of SFAS 96, the Exposure Draft changed, among other things, the transition rules relating to acquisitions completed prior to the adoption date of the new standard, possibly requiring restatement of certain assets and liabilities recorded in allocating the purchase prices of these acquisitions. PepsiCo has not expended the significant effort to evaluate the impact of the Exposure Draft, because of PepsiCo's substantial past acquisition activity and the likelihood that the new standard will reflect revisions to the Exposure Draft. The new standard is expected to require adoption by 1993.

Postretirement Benefits Other Than Pensions

PepsiCo provides health care and life insurance benefits to certain retired domestic employees, the costs of which are expensed as incurred. The 1991, 1990 and 1989 expense for retiree health care claims incurred and life insurance premiums paid was $23.9 million, $20.4 million and $15.4 million, respectively. In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106 (SFAS 106) "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 106 requires employers to accrue the cost of postretirement benefits (principally health care) over the years employees provide

services to the date of their full eligibility for such benefits. SFAS 106 is required to be adopted by 1993.

Upon adoption, SFAS 106 requires the recognition of a transition obligation that represents future retirement benefit costs related to services already provided by active and retired employees to the date of adoption. Employers have the option to expense the transition obligation immediately or amortize it over a period of up to 20 years.

PepsiCo's preliminary estimates of its pretax transition obligation, which PepsiCo intends to expense immediately upon adoption of SFAS 106, range from $500 million to $700 million ($310 million to $430 million after-tax, or $0.38 to $0.55 per share). PepsiCo's estimated annual pretax expense to be accrued under SFAS 106 would exceed the amount of estimated benefit costs to be incurred by a range of $30 million to $50 million ($20 million to $30 million after-tax, or $0.02 to $0.04 per share). These preliminary estimates are based upon the benefit plans expected to be in place upon adoption. The actual expense to be recorded will depend on certain factors, including the final health care inflation rates assumed and the discount rate used when recording the transition obligation.

Based on the current accounting standard used by PepsiCo in recording income taxes, as well as a proposed new FASB standard for accounting for income taxes expected to be required for 1993 reporting, the amounts presented parenthetically above reflect a tax benefit for these expenses. PepsiCo's cash flows will be unaffected by this accounting change because PepsiCo intends to continue its current practice of paying the costs of these postretirement benefits as incurred.

Pension Plans

PepsiCo has noncontributory defined benefit pension plans covering substantially all full-time domestic employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the domestic plans in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed income obligations. Capital Stock of PepsiCo accounted for approximately 19% and 18% of the total market value of the plans' assets at year-end 1991 and 1990, respectively.

In 1989, PepsiCo acquired the U.K. operations, the employees of which were covered by various plans including multiemployer plans. As the preliminary allocation of these plans' assets and the transfer of relevant employees to separate plans were not completed until late 1990, the 1991 and 1990 information presented below includes both the domestic plans and the U.K. operations' plans, while the 1989 information includes only the domestic plans. Other international plans are not significant in the aggregate and therefore are not included in the following disclosures.

The net pension expense (credit) for company-sponsored plans (the Plans) included the following components:

	1991	1990	1989
Service cost of benefits earned	**$ 46.8**	$ 48.1	$ 32.0
Interest cost on projected benefit obligations	**69.2**	63.3	47.1
Return on Plan assets:			
Actual	**(224.1)**	(27.0)	(154.6)
Deferred gain (loss)	**134.2**	(55.9)	89.9
	(89.9)	(82.9)	(64.7)
Amortization of net transition gain	**(19.0)**	(19.0)	(19.0)
Pension expense (credit)	**$ 7.1**	$ 9.5	$ (4.6)

The disclosures below have been aggregated for all Plans, as the amounts for certain small plans with accumulated benefit obligations exceeding the assets were not significant. Reconciliations of the funded status of the Plans to the prepaid pension liability included in the Consolidated Balance Sheet are as follows:

	1991	1990
Actuarial present value of benefit obligations:		
Vested benefits	**$ (717.1)**	$(549.9)
Nonvested benefits	**(96.8)**	(90.8)
Accumulated benefit obligation	**(813.9)**	(640.7)
Effect of projected compensation increases	**(133.0)**	(101.9)
Projected benefit obligation	**(946.9)**	(742.6)
Plan assets at fair value	**1,199.3**	985.7
Plan assets in excess of projected benefit obligation	**252.4**	243.1
Unrecognized prior service cost	**48.7**	42.4
Unrecognized net gain	**(103.4)**	(84.6)
Unrecognized net transition gain	**(129.1)**	(148.1)
Prepaid pension liability	**$ 68.6**	$ 52.8
Included in:		
"Investments in Affiliates and Other Assets"	**$ 106.5**	$ 85.3
"Other current liabilities"	**(22.6)**	(17.0)
"Other Liabilities and Deferred Credits"	**(15.3)**	(15.5)
	$ 68.6	$ 52.8

The assumptions used in computing the information above were as follows:

	1991	1990	1989
Discount rate-pension expense (credit)	**9.5%**	9.1	10.1
Expected long-term rate of return on plan assets	**10.2%**	10.2	10.0
Discount rate-projected benefit obligation	**8.6%**	9.5	9.0
Future compensation growth rate	**3.3%-7.4%**	5.0-7.0	5.0-7.0

The 1991 and 1990 discount rates and rates of return represent weighted averages, reflecting the combined assumptions for domestic and the U.K. operations' plans.

Full-time domestic employees not covered by the Plans generally are covered by multiemployer plans as part of collective-bargaining agreements. Pension expense for these multiemployer plans was not significant in the aggregate.

Employee Incentive Plans

PepsiCo has established certain employee incentive plans under which stock options are granted. A stock option allows an employee to purchase a share of PepsiCo Capital Stock (Stock) in the future at the fair market value on the date of the grant.

Under the PepsiCo SharePower Stock Option Plan, approved by the Board of Directors and effective in 1989, essentially all employees other than executive officers, part-time and short-service employees may be granted stock options annually. The number of options granted is based on each employee's annual earnings. The options generally become exercisable ratably over five years from the grant date and must be exercised within 10 years of the grant date. SharePower options were granted to approximately 107,000 employees in 1991 and 91,000 in 1990.

The shareholder-approved 1987 Long-Term Incentive Plan (the Plan), which has provisions similar to plans in place in prior years, provides incentives to eligible senior and middle management employees. In addition to grants of stock options, which are generally exercisable between 1 and 15 years from the grant date, the Plan allows for grants of performance share units (PSUs), stock appreciation rights (SARs) and incentive stock units (ISUs).

A PSU is equivalent in value to a share of Stock at the grant date and vests for payment four years from the grant date, contingent upon attainment of prescribed performance goals. Prior to 1988, PSUs were granted to eligible senior management employees together with an equal number of stock options. Since 1988, PSUs are not directly granted, but additional stock options are granted that may be surrendered for a specified number of PSUs within 60 days of the grant date. During 1991, 50,208 stock options were surrendered for 16,736 PSUs. Total PSUs outstanding at year-end 1991 and 1990 were 809,099 and 795,732, respectively. Prior to 1991, SARs were granted to eligible senior management employees in connection with stock options becoming exercisable. A SAR allowed these employees to surrender an option for a payment representing the difference between the fair market value of Stock on the SAR exercise date and the option exercise price. Of the 272,568 SARs outstanding at year-end 1990, 15,203 were exercised and the remainder were canceled at no cost in 1991. Prior to 1989, eligible middle management employees were granted ISUs rather than stock options. ISUs vest for payment at specified dates over a six year period, and each ISU is equivalent in value to a share of Stock at those respective dates. ISUs outstanding at year-end 1991 and 1990 were 162,591 and 585,149, respectively. Amounts expensed for PSUs, SARs and ISUs were $15 million, $13 million and $25 million in 1991, 1990 and 1989, respectively.

Grants under the Plan are approved by the Compensation Committee of the Board of Directors (the Committee), which is composed of outside directors. Payment of awards other than stock options is made in cash and/or Stock as approved by the Committee. Under the Plan, a maximum of 54 million shares of Stock can be purchased or paid pursuant to grants. There were 32 million and 34 million shares available for future grants at year-end 1991 and 1990, respectively.

Stock Option activity for 1991 and 1990 was as follows:

	(in thousands)	
	SharePower Plan	Long-Term Incentive Plan
Outstanding at December 30, 1989	10,045	18,325
Granted	8,808	12,179
Exercised	(37)	(868)
Surrendered for PSUs	–	(1,228)
Surrendered for SARs	–	(44)
Canceled	(1,589)	(1,490)
Outstanding at December 29, 1990	17,227	26,874
Granted	**9,249**	**2,195**
Exercised	**(325)**	**(950)**
Surrendered for PSUs	**–**	**(50)**
Surrendered for SARs	**–**	**(15)**
Canceled	**(2,350)**	**(220)**
Outstanding at December 28, 1991	**23,801**	**27,834**
Exercisable at December 28, 1991	**4,836**	**4,206**
Option prices per share:		
Exercised during 1991	$17.58 to $29.25	$4.11 to $26.44
Exercised during 1990	$17.58	$4.11 to $20.00
Outstanding at year-end 1991	$17.58 to $29.25	$4.11 to $33.94

Contingencies

PepsiCo is subject to various claims and contingencies related to lawsuits, taxes and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, arising from such claims or contingencies is not likely to have a material adverse effect on PepsiCo's annual results of operations or financial condition.

At year-end 1991 and 1990, PepsiCo was contingently liable under direct and indirect guarantees aggregating $86 million and $97 million, respectively. The guarantees are primarily issued to support financial arrangements of certain restaurant and bottling franchisees and PepsiCo joint ventures. PepsiCo manages the risk associated with these guarantees by performing appropriate credit reviews in addition to retaining certain rights as a franchisor or joint venture partner.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes. To help meet this responsibility, we maintain a system of internal control, supported by formal policies and procedures, which include an active Code of Conduct program intended to ensure key employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with our internal controls, policies and procedures. Although no cost effective internal control system will preclude all errors and irregularities, we believe our system of internal control provides reasonable assurance that assets are safeguarded, transactions are recorded in accordance with our policies and the financial information is reliable.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and judgments, as required. The consolidated financial statements have been audited by our independent auditors who have expressed their opinions with respect to the fairness of the statements. Their audits included a review of the system of internal control and tests of transactions to the extent they considered necessary to render their opinions.

The Audit Committee of the Board of Directors is composed solely of outside directors. The Audit Committee meets periodically with our independent auditors, PepsiCo internal auditors and management to review accounting, auditing, internal control and financial reporting matters. Both our independent auditors and internal auditors have free access to the Audit Committee.

Wayne Calloway

Wayne Calloway
Chairman of the Board and Chief Executive Officer

Robert G. Dettmer

Robert G. Dettmer
Executive Vice President and Chief Financial Officer

Robert L. Carleton

Robert L. Carleton
Senior Vice President and Controller

Report of KPMG Peat Marwick Independent Auditors

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries as of December 28, 1991 and December 29, 1990, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, appearing on pages 34, 35, 36, 38, 40 and 42 through 48. These financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of PepsiCo, Inc. and subsidiaries as of December 30, 1989 and for the year then ended were audited by other auditors whose report dated February 6, 1990, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PepsiCo, Inc. and subsidiaries as of December 28, 1991 and December 29, 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

New York, New York
February 4, 1992

Selected Financial Data

(in millions except per share and employee amounts, unaudited) PepsiCo, Inc. and Subsidiaries	Growth Rates: Compounded 10-Year 1981-91	Growth Rates: Compounded 5-Year 1986-91	Growth Rates: Annual 1-Year 1990-91	**1991**(a)	1990
Summary of Operations					
Net Sales	12.8%	16.8%	10.1%	**$19,607.9**	17,802.7
Cost of sales and operating expenses				**17,485.0**	15,628.9
Interest expense				**615.9**	688.5
Interest income				**(163.3)**	(182.1)
				17,937.6	16,135.3
Income from continuing operations before income taxes	13.2%	19.3%	0.2%	**1,670.3**	1,667.4
Provision for income taxes				**590.1**	576.8
Income from continuing operations	14.9%	18.4%	(1.0)%	**$ 1,080.2**	1,090.6
Net income	13.8%	18.7%	0.3%	**$ 1,080.2**	1,076.9
Income per share from continuing operations	15.5%	18.0%	(1.5)%	**$ 1.35**	1.37
Net income per share	14.1%	18.4%	–	**$ 1.35**	1.35
Cash dividends declared per share	11.3%	17.1%	20.1%	**$ 0.460**	0.383
Average shares and equivalents outstanding				**802.5**	798.7
Cash Flow Data(e)					
Net cash provided by continuing operations	16.8%	14.9%	15.2%	**$ 2,430.3**	2,110.0
Acquisitions and investments in affiliates for cash				**$ 640.9**	630.6
Purchases of property, plant and equipment for cash	13.4%	11.2%	23.5%	**$ 1,457.8**	1,180.1
Cash dividends paid	10.5%	16.4%	16.8%	**$ 343.2**	293.9
Year-End Position					
Total assets	16.8%	18.5%	9.5%	**$18,775.1**	17,143.4
Long-term debt(f)	25.5%	24.3%	32.3%	**$ 7,806.2**	5,899.6
Total debt(f)	20.8%	22.9%	6.8%	**$ 8,034.4**	7,526.1
Shareholders' equity				**$ 5,545.4**	4,904.2
Per share	14.0%	21.6%	13.0%	**$ 7.03**	6.22
Market price per share	23.4%	31.0%	31.1%	**$ 33¾**	25¾
Shares outstanding				**789.1**	788.4
Employees	10.9%	9.6%	9.7%	**338,000**	308,000
Statistics					
Return on average shareholders' equity(g)				**20.7%**	24.8
Historical cost net debt ratio(h)				**47%**	47
Market net debt ratio(i)				**19%**	22

All share and per share amounts reflect three-for-one stock splits in 1990 and 1986.

(a) Included $170.0 in unusual charges ($119.8 after-tax or $0.15 per share). See Note to Consolidated Financial Statements on page 34.

(b) Fiscal years 1988 and 1983 each consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years.

(c) Included a $156.0 unusual charge ($62.0 after-tax or $0.07 per share) related to a program to sell several international bottling operations.

(d) Included a $79.4 unusual charge ($79.4 after-tax or $0.09 per share) related to a reduction in net assets of certain international bottling operations.

(e) Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.

(f) Long-term debt includes the nonrecourse obligation. Total debt includes short-term borrowings and long-term debt.

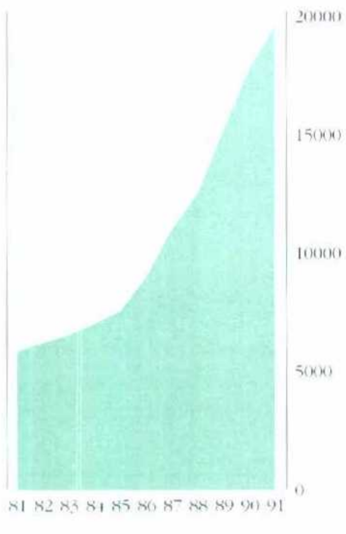
(g) The return on average shareholders' equity is calculated using income from continuing operations.

(h) The historical cost net debt ratio represents net debt, which is total debt reduced by the nonrecourse obligation and the pro forma remittance of offshore investment portfolios, as a percent of capital employed (net debt, other liabilities and deferred credits, deferred income taxes and shareholders' equity).

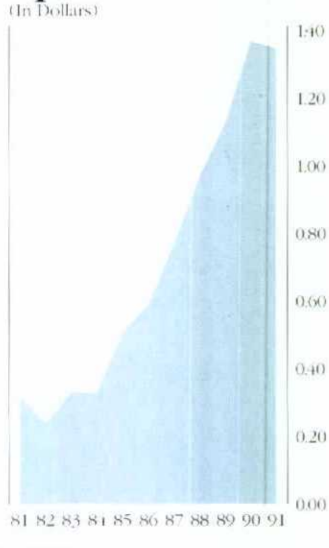
(i) The market net debt ratio represents net debt (see Note h) as a percent of net debt plus the market value of equity, based on the year-end stock price.

1989	1988(b)	1987	1986	1985	1984(c)	1983(b)	1982(d)	1981
15,242.4	12,533.2	11,018.1	9,017.1	7,584.5	7,058.6	6,568.6	6,232.4	5,873.3
13,459.5	11,184.0	9,890.5	8,187.9	6,802.4	6,479.3	5,995.7	5,684.7	5,278.8
609.6	344.2	294.6	261.4	195.2	204.9	175.0	163.5	147.7
(177.2)	(122.2)	(112.6)	(122.7)	(96.4)	(86.1)	(53.6)	(49.1)	(35.8)
13,891.9	11,406.0	10,072.5	8,326.6	6,901.2	6,598.1	6,117.1	5,799.1	5,390.7
1,350.5	1,127.2	945.6	690.5	683.3	460.5	451.5	433.3	482.6
449.1	365.0	340.5	226.7	256.7	180.5	169.5	229.7	213.7
901.4	762.2	605.1	463.8	426.6	280.0	282.0	203.6	268.9
901.4	762.2	594.8	457.8	543.7	212.5	284.1	224.3	297.5
1.13	0.97	0.77	0.59	0.51	0.33	0.33	0.24	0.32
1.13	0.97	0.76	0.58	0.65	0.25	0.33	0.27	0.36
0.320	0.267	0.223	0.209	0.195	0.185	0.180	0.176	0.158
796.0	790.4	789.3	786.5	842.1	862.4	859.3	854.1	837.5
1,885.9	1,894.5	1,334.5	1,212.2	817.3	981.5	670.2	661.5	515.0
3,296.6	1,415.5	371.5	1,679.9	160.0	–	–	130.3	–
943.8	725.8	770.5	858.5	770.3	555.8	503.4	447.4	414.4
241.9	199.0	172.0	160.4	161.1	154.6	151.3	142.5	126.2
15,126.7	11,135.3	9,022.7	8,027.1	5,889.3	4,876.9	4,446.3	4,052.2	3,960.2
6,076.5	2,656.0	2,579.2	2,632.6	1,162.0	668.1	797.8	843.2	804.6
6,942.8	4,107.0	3,225.1	2,865.3	1,506.1	948.9	1,073.9	1,033.5	1,214.0
3,891.1	3,161.0	2,508.6	2,059.1	1,837.7	1,853.4	1,794.2	1,650.5	1,556.3
4.92	4.01	3.21	2.64	2.33	2.19	2.13	1.96	1.89
21⅜	13⅛	11¼	8¾	7⅞	4⅝	4¼	3¾	4⅛
791.1	788.4	781.2	781.0	789.4	845.2	842.0	840.4	824.4
266,000	235,000	225,000	214,000	150,000	150,000	154,000	133,000	120,000
25.6	26.9	26.5	23.8	23.1	15.4	16.4	12.7	17.5
51	37	35	40	24	11	23	30	38
24	20	18	23	12	7	16	20	23

Net Sales
($ In Millions)



Income Per Share From Continuing Operations
(In Dollars)



Quarterly Financial Data

(in millions except per share amounts, unaudited)

	First Quarter (12 Weeks)		Second Quarter (12 Weeks)		Third Quarter (12 Weeks)		Fourth Quarter (16 Weeks)		Full Year (52 Weeks)	
	1991	1990	**1991**	1990	**1991**	1990	**1991**	1990	**1991**	1990
Net sales	**$4,117.0**	3,677.7	**4,679.8**	4,204.7	**4,881.3**	4,475.7	**5,929.8**	5,444.6	**19,607.9**	17,802.7
Gross profit	**$2,153.1**	1,888.2	**2,445.1**	2,216.0	**2,531.9**	2,323.5	**3,082.3**	2,825.6	**10,212.4**	9,253.3
Income from continuing operations before income taxes	**$ 316.0**	275.6	**489.7**	438.9[a]	**433.4[b]**	566.0[c]	**431.2[d]**	386.9[e]	**1,670.3**	1,667.4
Provision for income taxes	**$ 110.6**	93.7	**171.4**	146.4	**148.0**	215.7	**160.1**	121.0	**590.1**	576.8
Income from continuing operations	**$ 205.4**	181.9	**318.3**	292.5	**285.4**	350.3	**271.1**	265.9	**1,080.2**	1,090.6
Discontinued operation charge	**$ –**	–	**–**	–	**–**	(13.7)	**–**	–	**–**	(13.7)
Net income	**$ 205.4**	181.9	**318.3**	292.5	**285.4**	336.6	**271.1**	265.9	**1,080.2**	1,076.9
Income (charge) per share:										
Continuing operations	**$ 0.26**	0.23	**0.39**	0.36	**0.36**	0.44[c]	**0.34**	0.34	**1.35**	1.37
Discontinued operation	**$ –**	–	**–**	–	**–**	(0.02)	**–**	–	**–**	(0.02)
Net income per share	**$ 0.26**	0.23	**0.39**	0.36[a]	**0.36[b]**	0.42	**0.34[d]**	0.34[e]	**1.35**	1.35

NOTE: The 1990 gross profit amounts reflect a reclassification to conform with the 1991 presentation.

(a) Included a $9.1 unusual charge ($5.5 after-tax or $0.01 per share) to write-off receivables due to a major domestic retail customer filing for bankruptcy.

(b) Included $100.4 in unusual charges ($62.4 after-tax or $0.08 per share) consisting of a $91.4 restructuring charge to streamline domestic snack foods operations and a $9.0 charge at domestic KFC related to a delay in the national roll-out of the new Skinfree Crispy chicken product.

(c) Included a $70.6 net unusual credit ($23.8 after-tax or $0.03 per share) consisting of a $118.2 gain from an initial public stock offering by PepsiCo's KFC joint venture in Japan, partially offset by an $18.0 charge for accelerated contributions to the PepsiCo Foundation, a $17.6 charge for closures of certain underperforming restaurants and a $12.0 charge for potentially uncollectible receivables from highly leveraged domestic retail customers.

(d) Included a $69.6 unusual charge ($57.4 after-tax or $0.07 per share) consisting of a $34.0 charge to streamline KFC's operations, a $23.6 charge to streamline snack foods operations in the U.K. and a $12.0 charge to dispose of or reduce ownership in an international snack foods business.

(e) Included a $26.3 unusual charge ($22.5 after-tax or $0.03 per share) consisting of a $15.9 charge to reduce the carrying value of a Pizza Hut international joint venture investment, an $8.0 charge to consolidate Pizza Hut domestic field operations and a $2.4 charge to relocate Pizza Hut international headquarters.

Shareholder Information

Financial Information

Securities analysts and representatives of financial institutions are invited to contact:

Margaret D. Moore
Vice President, Investor Relations
Telephone: (914) 253-3035

Shareholder Inquiries

Questions concerning your dividend reinvestment account, dividend payments or address changes should be addressed to PepsiCo's transfer agent:

Manufacturers Hanover Trust Company
Security Holder Relations
P.O. Box 24935, Church Street Station
New York, New York 10249
Telephone: (212) 613-7147

Please mention PepsiCo, your name as printed on your stock certificate, your social security number, and include your address and telephone number in all correspondence.

Independent Auditors

KPMG Peat Marwick
345 Park Avenue
New York, New York 10154

Shareholders' Meeting

The Annual Meeting of Shareholders will be held at PepsiCo World Headquarters on Anderson Hill Road, Purchase, New York at 10 a.m. (EDT), Wednesday, May 6, 1992. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

If you need additional assistance or information, or would like to receive free of charge a copy of PepsiCo's Form 10-K and 10-Q reports filed with the Securities and Exchange Commission, contact:

Manager of Shareholder Relations
PepsiCo, Inc.
Purchase, New York 10577
Telephone: (914) 253-3055

Design: Eisenman & Enock, Inc.
Printing: The Bradley Printing Company
Typography: Grid Typographic Services
Photography: Ben Rosenthal
Chairman's and Directors' Photography: Alen MacWeeney

A special thanks to Oscar and her family for posing for our photographs.

♻ Printed on recycled paper

Capital Stock Information

Stock Trading Symbol

PEP

Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo Capital Stock, which is also listed on the Midwest, Basel, Geneva, Zurich, Amsterdam and Tokyo Stock Exchanges.

Shareholders

At year-end 1991, there were approximately 135,000 shareholders of record.

Dividend Policy

Cash dividends are declared quarterly. Quarterly cash dividends have been paid since PepsiCo was formed in 1965, and dividends have increased for 20 consecutive years.

Consistent with PepsiCo's current payout target of approximately one-third of the prior year's income from continuing operations, the 1991 dividends declared represented 34% of 1990 income from continuing operations.

Dividends Declared Per Share (in cents)

Quarter	1991	1990
1	**10**	8⅓
2	**12**	10
3	**12**	10
4	**12**	10
Total	**46**	38⅓

Dividend Reinvestment Plan

Shareholders may increase their investment in our stock by enrolling in PepsiCo's Dividend Reinvestment Plan. A brochure explaining this convenient plan, for which PepsiCo pays all fees, is available from our transfer agent:

Manufacturers Hanover Trust Company
450 West 33rd Street
New York, New York 10001

PepsiCo has recently added a stock certificate safekeeping feature to its current Dividend Reinvestment Plan. For details, write to the transfer agent listed above.

Stock Prices

The high, low and closing prices for a share of PepsiCo Capital Stock on the New York Stock Exchange, as reported by The Dow Jones News/Retrieval Service, for each fiscal quarter of 1991 and 1990 were as follows (in dollars):

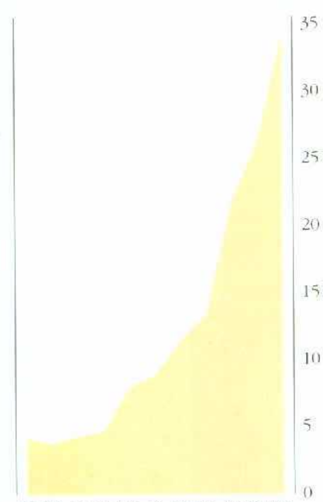
1991	High	Low	Close
Fourth Quarter	**33⅞**	**27**	**33¾**
Third Quarter	**33½**	**27¾**	**29⅛**
Second Quarter	**35⅝**	**29½**	**30⅞**
First Quarter	**35⅛**	**23½**	**32⅞**
1990			
Fourth Quarter	27⅞	21	25¾
Third Quarter	27⅞	21¾	25¼
Second Quarter	25½	20⅝	24⅝
First Quarter	21½	18	20½

Stock Performance

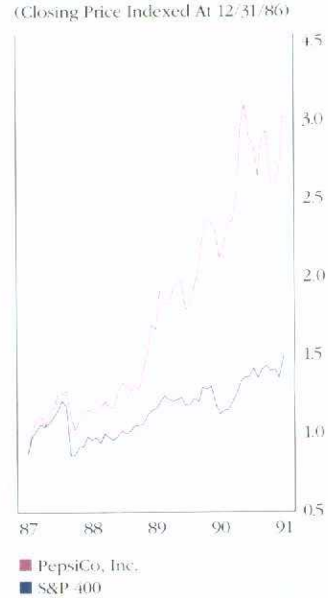
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made in 1965 was worth approximately $51,000 on December 28, 1991, assuming the reinvestment of dividends. Past performance is not necessarily indicative of future returns on investments in PepsiCo Capital Stock.

As the chart at the far right illustrates, the return on PepsiCo Capital Stock compares favorably with the performance of the Standard & Poor's 400 over the past five years.

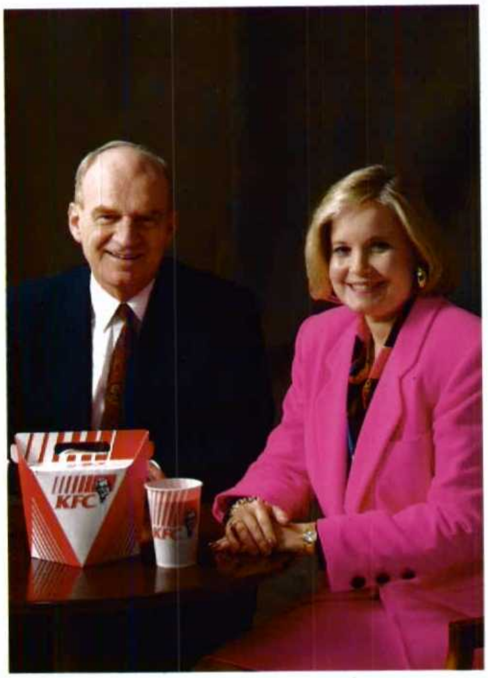
Year-End Market Price Of Stock
(In Dollars)

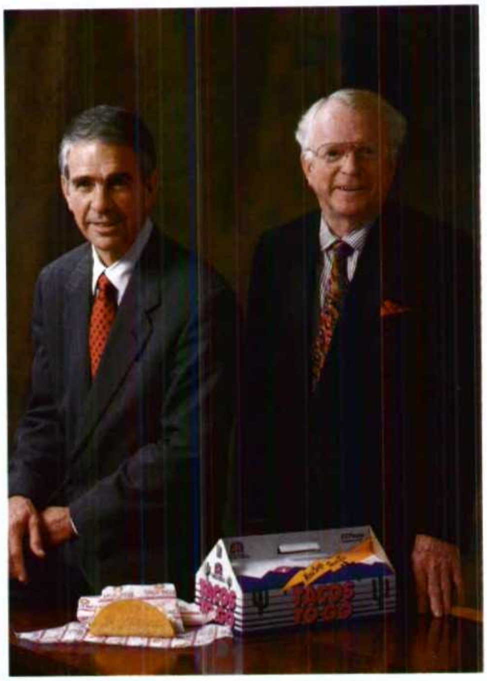


Comparison Of Monthly Market Price Performance
(Closing Price Indexed At 12/31/86)



PepsiCo Directors





Wayne Calloway, 56, Chairman of the Board and Chief Executive Officer, PepsiCo, Inc. Elected 1983. Mr. Calloway joined PepsiCo in 1967. He assumed his current position in 1986. Prior to this, he was Chairman of the Board and Chief Executive Officer of Frito-Lay, and held positions at corporate headquarters and in Canada. Director: Citicorp, Exxon Corporation and General Electric.

Sharon Percy Rockefeller, 47, President and Chief Executive Officer, WETA public stations. Elected 1986. Mrs. Rockefeller has served on the Board of the Public Broadcasting Service, Washington, D.C. and has been Chairman of the Board of the Corporation for Public Broadcasting.

Arnold R. Weber, 62, President, Northwestern University. Elected 1978. Dr. Weber was previously President of the University of Colorado and has held various government positions including Executive Director of the Cost of Living Council and Associate Director of the Office of Management and Budget. Director: Burlington Northern, Inc., Inland Steel Company, SuperValu Stores, Inc. and The Tribune Co.

John J. Murphy, 60, Chairman, Chief Executive Officer and President, Dresser Industries. Elected 1984. Mr. Murphy joined Dresser in 1952, became its President and Chief Operating Officer in 1982 and was elected its Chairman and Chief Executive Officer in 1983. Director: NationsBank Corporation, Kerr-McGee Corporation.

Robert E. Allen, 57, Chairman of the Board and Chief Executive Officer, American Telephone and Telegraph Co. Elected 1990. Mr. Allen began his career at AT&T in 1957. He was elected President and Chief Operating Officer in 1986 and assumed his present responsibilities in 1988. Director: Bristol-Myers Squibb Co.

Roger B. Smith, 66, Retired Chairman and Chief Executive Officer, General Motors Corp. Elected 1989. Mr. Smith joined General Motors in 1949 and became its Chairman and Chief Executive Officer in 1981. Trustee: Michigan Colleges Foundation and the Alfred P. Sloan Foundation. Director: Citicorp, General Motors Corp., International Paper Co. and Johnson & Johnson.

John F. Akers, 57, Chairman and Chief Executive Officer, International Business Machines Corporation. Elected 1991. Mr. Akers joined IBM in 1960, became Chief Executive Officer in 1985, and in 1986 he also assumed the position of Chairman. Director: New York Times Co. Trustee: Metropolitan Museum of Art and the California Institute of Technology. Chairman of the Board of Governors of United Way of America.

Robert H. Stewart, III, 66, Vice Chairman of the Board, Team Bank. Elected 1965. Mr. Stewart has served as Vice Chairman of the Board of LaSalle Energy Corp., Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee of InterFirst Corp. and Chairman of the Board of First RepublicBank Corp. Director: ARCO Chemical Co. and Team Bancshares, Inc.

Roger A. Enrico, 47, Chairman and Chief Executive Officer, Frito-Lay, Inc. Elected 1987. Mr. Enrico joined PepsiCo in 1971 and held positions with PepsiCo Foods International, Pepsi-Cola International and Pepsi-Cola Company. He was President and Chief Executive Officer of PepsiCo Worldwide Beverages until he assumed his current position in January 1991. Director: Dayton Hudson Corporation.

Andrall E. Pearson, 66, Professor, Harvard Business School. Elected 1970. Mr. Pearson was PepsiCo's President and Chief Operating Officer from 1971 through 1984. Director: Kendall Company, The May Department Stores Company and Primerica Corp.

Michael H. Jordan, 55, Chairman, PepsiCo International Foods and Beverages. Elected 1985. Mr. Jordan joined PepsiCo in 1974 and served at Frito-Lay, PepsiCo Foods International and at corporate headquarters as PepsiCo's President. He assumed his current position in January 1991. Director: Melville Corporation, Rhone-Poulenc Rorer Inc.

Clifton C. Garvin, Jr., 70, Retired Chairman of the Board and Chief Executive Officer, Exxon Corporation. Elected 1975. Mr. Garvin joined Exxon in 1947, became its President in 1972 and its Chairman in 1975. Director: Citibank, N.A., Citicorp, Georgia-Pacific Corporation, J.C. Penney Company, Inc., Johnson & Johnson and TRW Inc.

Principal Divisions and Corporate Officers

(Listings for Division Presidents and Executive Officers include age and years of PepsiCo experience as of March 31, 1992.)

Divisions

Pepsi-Cola North America
Somers, New York 10589
Craig E. Weatherup, President and
Chief Executive Officer, 46, 17 years

Frito-Lay, Inc.
7701 Legacy Drive
Plano, Texas 75024
Roger A. Enrico, Chairman and
Chief Executive Officer, 47, 20 years

PepsiCo International Foods and Beverages
400 Frito-Lay Tower
Dallas, Texas 75235
Michael H. Jordan, Chairman, 55, 17 years

Pepsi-Cola International
Somers, New York 10589
Christopher A. Sinclair, President and
Chief Executive Officer, 41, 9 years

PepsiCo Foods International
400 Frito-Lay Tower
Dallas, Texas 75235
John S. Pingel, Jr., President and
Chief Executive Officer, 50, 21 years

Kentucky Fried Chicken Corporation
1441 Gardiner Lane
Louisville, Kentucky 40213
John M. Cranor III, President and
Chief Executive Officer, 45, 14 years

Pizza Hut Worldwide
9111 East Douglas
Wichita, Kansas 67207
Steven S Reinemund, President and
Chief Executive Officer, 43, 7 years

Taco Bell Worldwide
17901 Von Karman
Irvine, California 92714
John E. Martin, President and
Chief Executive Officer, 46, 8 years

PepsiCo Food Systems Worldwide
Two Galleria Tower
13455 Noel Road, Suite 2100
Dallas, Texas 75240
Graham G. Butler, Chief Executive
Officer, 52, 19 years

Co-founder of PepsiCo, Inc.

Donald M. Kendall
Chairman of the PepsiCo Foundation,
44 years of PepsiCo experience

Officers

Wayne Calloway
Chairman of the Board and
Chief Executive Officer, 56, 25 years

Robert G. Dettmer
Executive Vice President and
Chief Financial Officer, 60, 19 years

Robert L. Carleton
Senior Vice President and
Controller, 51, 17 years

Donovan R. Christopherson
Senior Vice President, Restaurant
Development, 59, 11 years

J. Roger King
Senior Vice President,
Personnel, 51, 22 years

Edward V. Lahey, Jr.
Senior Vice President, General
Counsel and Secretary, 53, 26 years

Joseph F. McCann
Senior Vice President,
Public Affairs, 51, 19 years

Leonard Schutzman
Senior Vice President and
Treasurer, 45, 15 years

Kenneth T. Stevens
Senior Vice President,
Strategic Planning, 40, 1 year

Robert O. Barber
Vice President and
Assistant Controller, 42, 14 years

John S. Bronson
Vice President, Compensation
and Benefits, 44, 12 years

John T. Cahill
Vice President and
Assistant Treasurer, 34, 2 years

Gerard W. Casey
Vice President and
Associate General Counsel, 49, 22 years

Douglas M. Cram
Vice President and
Assistant General Counsel, 49, 18 years

Allan B. Deering
Vice President, Management Information
Services, 57, 11 years

Lawrence F. Dickie
Vice President, Associate General Counsel
and Assistant Secretary, 49, 15 years

Robert S. Enright
Vice President, Taxes, 45, 3 years

John W. Ewing
Vice President, Human
Resources, 62, 38 years

William A. Finkelstein
Vice President and
Intellectual Property Counsel, 44, 18 years

John J. Flaherty
Vice President and
General Auditor, 52, 10 years

Ronald E. Harrison
Vice President,
Community Affairs, 56, 27 years

David D. Hatch
Vice President, Organization and
Management Development, 38, 7 years

Joseph J. Joyce
Vice President and
Assistant General Counsel, 48, 20 years

Jay M. Kushner
Vice President, International
Tax Planning, 35, 7 years

Fred S. McRobie
Vice President and
Assistant General Counsel, 50, 17 years

Ronnie Miller Hasday
Vice President,
Corporate Personnel, 43, 16 years

Margaret D. Moore
Vice President, Investor Relations,
44, 18 years

Claudia E. Morf
Vice President and
Assistant Treasurer, 40, 10 years

David E. Scherb
Vice President,
Compensation, 43, 4 years

David L. Wright
Vice President, Government Affairs,
43, 7 years

Executive Offices

Purchase, New York 10577
(914) 253-2000

Bench strength!
The deeper you look, the more you find.

Everybody knows about our big names like Pepsi and Doritos and all our restaurants. But growth comes from new products and new ideas. Consider this lineup:

- ***Pizza Hut Delivery***
  1991 Systemwide Retail Sales: $1.2 Billion
- ***Mountain Dew***
  1991 Worldwide Retail Sales: $2.3 Billion
- ***Taco Bell Kiosks and Carts***
  First Year Systemwide Retail Sales: $3 Million
- ***PFS***
  1991 Systemwide Restaurant Deliveries: $2.4 Billion
- ***Sunchips***
  First Year Retail Sale 11[illegible] illion
- ***KFC International***
  1991 Systemwide Ret Sal $2.8 Billion

This should perk up your ears!

PepsiCo generates increasing amounts of cash, which allows us to pay dividends, reinvest heavily for future growth and take advantage of opportunities, including strategic acquisitions. Our cash provided by operations has increased at a compounded annual rate of 17% over the past decade.